Nebraska Investment Council

Annual Report
Calendar Year 2010

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Nebraska Investment Council

Back Row (left to right): Dr. Richard A. DeFusco, John M. Dinkel, and John L. Maginn
Front Row (left to right): Shane Osborn (2010 State Treasurer), Phyllis Chambers, Norman D. Riffel, Gail Werner-Robertson, and Jeffrey W. States
Not pictured: Don Stenberg

Council Chairwoman

Gail Werner-Robertson
President
GWR Wealth Management, LLC
Omaha, NE
Term 2009-2013

Council

Dr. Richard A. DeFusco, Ph. D., CFA
Professor of Finance
University of Nebraska-Lincoln
Lincoln, NE
Term 2007-2011

John L. Maginn, CFA
President
Maginn Associates, Inc.
Omaha, NE
Term 2011-2015

Don Stenberg
Nebraska State Treasurer
Lincoln, NE
Ex Officio
(non-voting)

John M. Dinkel
Dinkel Implement Co.
Norfolk, NE
Term 2010-2014

Norman D. Riffel
Metro Moving Services, Inc.
Omaha, NE
Term 2008-2012

Phyllis Chambers
NPERS Director
Lincoln, NE
Ex Officio
(non-voting)

State Investment Officer

Jeffrey W. States
State Investment Officer
Lincoln, NE

MISSION STATEMENT

It is the mission of the Nebraska Investment Council to prudently manage the funds entrusted to us by the people of the State of Nebraska. We deliver investment management services to provide direct financial benefit exclusively to the owners of these funds. We are committed to thorough, sound, and informed analysis in order to achieve superior returns while maintaining prudent levels of risk.

State Investment Officer's Report

I am pleased to present the 2010 Annual Report for the Nebraska Investment Council. This report includes detailed information about the Defined Benefit Plans, the State and County Retirement Plans, and all other assets for which the Investment Council has investment responsibility. At the end of 2010, the total assets under management were $15.6 billion, an increase of 10.7% from December 31, 2009. This marks the second year of strong performance following the 21% decline in assets experienced in 2008 from the financial crisis and economic recession. The total assets under management at year end are now above the previous record level of $15.3 billion at the end of 2007.

Jeffrey W. States

"This marks the second year of strong performance following the 21% decline in assets experienced in 2008 from the financial crisis and economic recession."

Capital Markets Overview

The financial markets finished calendar year 2010 with a strong fourth quarter after experiencing three quarters of uncertainty about the direction of the domestic and global economies. The improvement came after the Federal Reserve announced its intent to purchase $600 billion in treasury securities by June 30, 2011. It is expected that this second round of quantitative easing by keeping short-term interest rates low will stimulate the U.S. economy and replace fears of deflation with an expectation of modest inflation. Fears of a double-dip recession had abated by year end.

The U.S. stock market, as measured by the Dow Jones U.S. Total Stock Market Index, returned 18.1% for the calendar year. From a capitalization standpoint, small-cap stocks outperformed large-cap stocks for the calendar year. From a style perspective, growth stocks performed better than value stocks by a margin of 400 basis points. For the first time in several years the U. S. stock market outperformed most other developed countries as investors expressed their belief that the U.S. economy would lead the global recovery. The U.S. equity market returns for the year matched those of the emerging markets. Developed non-U.S. markets, as measured by the MSCI All-Country World ex-U.S. index, returned 11.2% for the year. Emerging markets finished the year up 18.9 %.

The U.S. bond market, as measured by the Barclays Capital Universal Bond Index, returned 7.2% for the year. The majority of the return came from high yield and investment grade corporate securities which outperformed treasuries. Credit spreads declined throughout the year, providing strong performance in the corporate and asset-backed sectors of the market.

The less liquid private equity and real estate investments continued to lag the publicly traded stock and bond markets. Commercial real estate began to show improvement as occupancy rates rose across several property types. Fundamentals for apartments and hotels are leading the recovery. Falling cap rates on core real estate properties in primary markets drove up total returns. The NFI-ODCE Index, an index of open end core equity real estate funds, had a one year return of 15.3% for 2010. Private equity experienced an improvement in deal activity. The number of U.S. buyout deals increased by 40%. Debt financing for new deals improved as lenders cautiously re-entered the market.

2010 Highlights

On December 21, 2010 the long time portfolio manager of the State Operating Investment Pool Gayle Wrasse retired. Gayle worked for the State over 42 years.

In July the Council reviewed the results of a new asset/liability study prepared by Hewitt Ennis Knupp, its investment consultant, for the Defined Benefit Plans and the State and County Cash Balance Plans. The decision of the Council after considering the study results was to maintain the current strategic asset allocation. The strategic asset allocation is 31.5% U.S. equity; 13.5% non-U.S. equity; 15% global equity; 30% fixed income; 5% real estate; and 5% private equity.

Two additional investment staff were hired in 2010 - a securities investment analyst II and a portfolio manager I. The securities investment analyst II is responsible for accounting for and monitoring all investment activity for the private equity and real estate investments. The portfolio manager I assists the portfolio manager II with the investment of the State's Operating Investment Pool (OIP). $1.8 billion of the OIP is internally managed in government and agency fixed income securities and $900 million is externally managed and invested in investment grade corporate securities.

Throughout all of 2010 the Council and its staff worked closely with the State Treasurer's Office on the transition of the Nebraska 529 College Savings Plan program management from Union Bank to the First National Bank of Omaha (FNBO) and the implementation of the new choices. At the close of business on December 17, 2011 the transition was completed. Early in 2010 the State Treasurer and the Council selected FNBO to become the program manager and a seven-year agreement was awarded.

As noted above, the assets that the Council manages increased to $15.6 billion by the end of 2010. A summary of the transaction activity by program category is on page 10. The growth in assets comes from contributions and investment earnings. Total net contributions for all funds managed by the Council were -$127 million and total net investment earnings were $1,635 billion during the year. Only the Nebraska Educational Savings Plan Trust (529 Plans) had positive net contributions. During the year, net contributions to the Nebraska Educational Savings Plan Trust were $104 million. Total assets in the 529 Plans were approximately $2.4 billion at the end of the year. The net contributions for the School, State Patrol and Judges Defined Benefit Plans, State and County Plans and the State Deferred Compensation Plan were all negative.

Throughout 2010, the Council continued to work to diversify the investment asset allocation to improve the risk and return characteristics of the investment portfolios of the various retirement plans. Evaluation of the benefits and risks for the addition of new investment strategies and non-traditional asset classes were considered.

The Council understands that the primary investment objective for the assets supporting the Defined Benefit Plans and the State and County Cash Balance Plans is to be able to pay future benefits to participants. The Council is focused on the long term nature of these future liabilities.

In December of 2010, John Maginn was reappointed by Governor Heineman to a new five year term on the Nebraska Investment Council.

Performance

The total return on the assets supporting the Defined Benefit Plans was 13.4% in 2010. This return is equal to the policy benchmark return for the one year period. The Plans assets rose by $801 million. The rate of return on the Plans was below the benchmark for the trailing three year period and matched the policy benchmark for the five and ten year periods. The annualized rate of return for the Plans since 1983, the inception of the current performance measurement process, is 9.3%. This is in excess of the actuarial assumption of 8% for the rate of return on the investments, and helps to reduce the long-term cost of operating the Plans.

In the State and County Retirement Systems, the Cash Balance Plan is offered to participants. The strategic asset allocation is identical to that of the Defined Benefit Plans. In 2010, the assets supporting the Cash Balance Plan had an investment return of 13.3%. The slight difference in the performance of the Defined Benefit Plans is the result of cash flow differences. Since this plan was implemented in 2003, the average annualized rate of return is 7.3%. The interest credit rate over this time-period averaged 5.1%.

The rate of return for participants in the Defined Contribution option of the State and County Retirement Systems, the State Deferred Compensation Plan, and the Nebraska Educational Savings Plan Trust are dependent upon the investment funds selected by the participants. In all of these Plans, a variety of investment options such as equity, fixed income, and premixed funds are offered. The Council recognizes that the investment objectives and risk tolerance of individual participants can differ considerably, and thus seeks to provide a sufficient range of options to meet the needs of the participants. For the investment information on the portfolios for which the Council is responsible, please see the appropriate section following in this report.

Conclusion

Gail Werner-Robertson serves as the Chair of the Nebraska Investment Council.

I am honored to serve as the State Investment Officer. As fiduciaries of the assets entrusted to our care, the Council and I strive to understand the objectives of each of the funds that we manage and invest them prudently with a focus on long-term results and to manage short-term volatility. We are committed to making investment decisions solely in the interests of the beneficiaries of the funds.

Sincerely,

Jeffrey W. States

Jeffrey W. States
State Investment Officer

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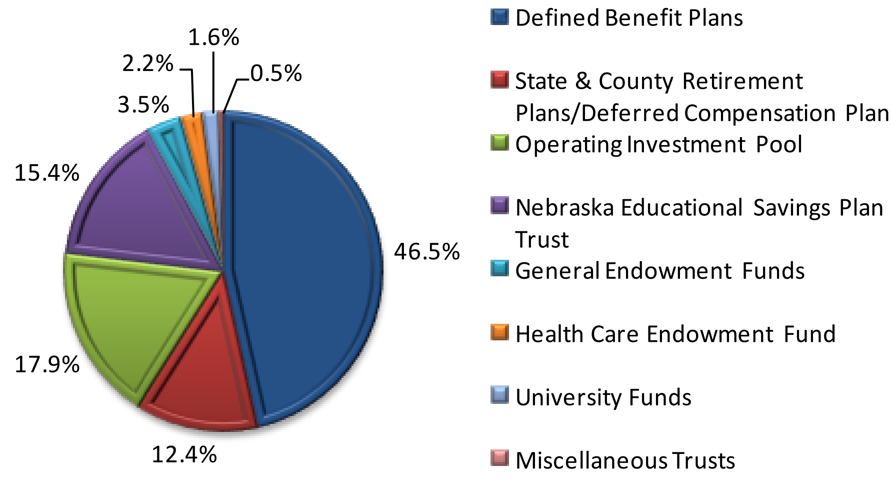
Executive Summary



1969

LB1345 passed providing for centralization of investment of State funds; law called for appointment of five Council members by the Governor

State Operating Funds

1970

First General Endowment Fund
State Patrol Retirement Plan
Judges' Retirement Plan

1971

School Retirement Plan
Permanent School Fund

1976

Time Deposit Open Account Program

1989

Miscellaneous Trust Funds

1997

State and County Retirement Plans

2000

Health Care Endowment Fund

2002

Nebraska Educational Savings Plan Trust

2003

Cash Balance Benefit Plan

2005

University Funds

The Nebraska Investment Council manages the investments of over 30 different entities. Numerous organizations may be included in an entity, such as the many separate departments of State government in the Operating Investment Pool. These entities fall into the eight major categories displayed above. For example, the pension plans for the employees of the Schools, the State Patrol, and Judges have similar characteristics and are grouped under "Defined Benefit Plans." The pension plans for State and County employees have different characteristics and are listed separately. For all these entities, the Council's responsibilities are primarily investment management. It does not determine the amount of funds contributed to nor disbursed from the funds it manages.

The Council portfolios experienced a $127 million net external cash outflow during 2010. The largest cash flows were in the Operating Investment Pool which had a $117 million cash outflow and the Nebraska Educational Savings Plan Trust which had an inflow of $109 million.

During the fifteen years displayed on the following page, assets have grown from $3.7 billion to $15.6 billion. Approximately $8.0 billion of this increase is attributable to investment returns during the period. The largest investment returns for any one year occurred in 2009, with investment gains of $2.3 billion. The asset base increased by approximately $0.8 billion due to the Council assuming responsibility for the State and County Retirement Plans' assets in 1997, $0.1 billion from the Nebraska Educational Savings Plan Trust in 2002, and $0.2 billion from the University Trust Funds in 2005. In total, approximately $2.8 billion was due to total net cash inflows to the various funds.

This report is intended to provide an overview of the investment management activities of the Council. All figures are believed to be materially accurate within the context of this report. Returns on all funds managed by the Council are reported net of fees unless noted otherwise.

TRANSACTION SUMMARY

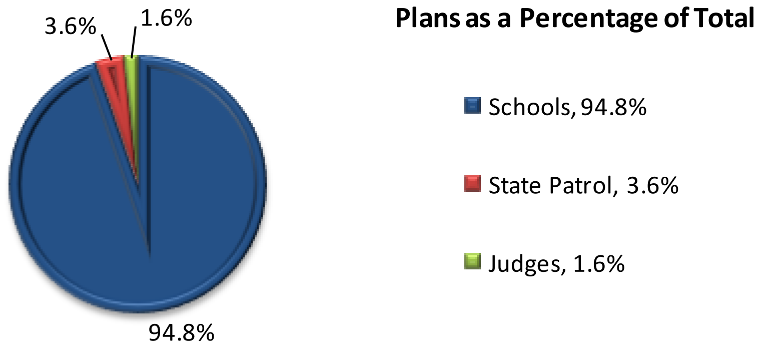
	Beginning Balance	Net Contributions	Investment Results	Closing Balance
	(millions of dollars)			
Defined Benefit Plans	$ 6,449	-$ 58	$ 859	$ 7,250
State & County Retirement Plans/Deferred Compensation Plan	1,696	- 32	271	1,935
Operating Investment Pool	2,778	- 117	122	2,783
NE Educational Savings Plan Trust	2,035	109	249	2,393
General Endowment Funds	494	- 6	58	547
Health Care Endowment Fund	317	-17	38	339
University Funds	228	-2	32	257
Miscellaneous Trusts	73	-4	6	74
2010 Totals	**$14,071**	**-$ 127**	**$1,635**	**$15,578**
2009 Totals[1]	$12,106	-$ 314	$2,279	$14,071
2008 Totals	15,314	391	-3,599	12,106
2007 Totals	13,799	452	1,063	15,314
2006 Totals	11,774	546	1,479	13,799
2005 Totals[2]	10,755	357	663	11,774
2004 Totals[3]	8,894	753	891	10,539
2003 Totals[3]	7,299	214	1,372	8,883
2002 Totals[4]	7,702	91	-486	7,307
2001 Totals	7,741	-8	-86	7,647
2000 Totals	7,512	76	152	7,741
1999 Totals	6,871	-22	664	7,512
1998 Totals	5,993	95	783	6,871
1997 Totals[5]	5,074	140	780	5,993
1996 Totals	3,740	178	388	4,306

1. Due to a restatement of December 2008 assets, the beginning balance for the General Endowment Fund, the Health Care Endowment Fund, and the Excess Liability Fund (included in as a Miscellaneous Trust fund) have changed since the 2008 annual report. The fiscal year-end of the plans is June 30, 2009.
2. 2005 beginning balance differs from the 2004 closing balance because of the addition of the University Funds. Based on Nebraska statutes, the Nebraska Investment Council has investment oversight of these funds.
3. 2004 beginning balance differs from the 2003 closing balance and the 2003 beginning balance differs from the 2002 closing balance because of valuation changes in the Nebraska Educational Savings Plan Trust and the Health Care Endowment Fund. Please see the appropriate section for more detail.
4. 2002 beginning balance differs from the 2001 closing balance because of the addition of the Nebraska Educational Savings Plan Trust.
5. 1997 beginning balance differs from the 1996 closing balance by approximately $0.8 billion because the Council assumed responsibility for the State and County Retirement Plans assets in 1997.

Defined Benefit Plans – Schools, State Patrol, and Judges

OVERVIEW

The Defined Benefit Plans are comprised of the School Retirement System of the State of Nebraska, the Nebraska State Patrol Retirement System, the Nebraska Judges' Retirement System, and the Omaha Schools Service Annuity Fund. For these plans, the benefit is determined by formula and does not depend on investment results.



Funding for the plans comes from a variety of sources. For the School plan, active employees contribute 7.28% of their pay. School districts contribute 101% of the employee's contribution and the State contributes 0.7% of payroll. However, the passage of LB187 temporarily increases contribution rates. On September 1, 2009, the contribution rate for School plan members increased to 8.28% and the State's contribution increased to 1.0%. On September 1, 2014, the contribution rate for School plan members will return to 7.28% and the State's contribution will return to 0.7% of payroll. The State also contributes to a COLA (cost of living adjustment) which is currently funded by an annual contribution in an amount set by statute. For the Patrol plan, since July 1, 2010 contribution rates are set at 16% for employees and 16% for the employer. For the Judges' plan, active employees contribute 8% of pay for up to 20 years of service. Members with more than 20 years of service contribute 4% of pay. However, the passage of LB414 temporarily increases the 8% contribution rate to 9% and the 4% rate to 5% until July 1, 2014. The plan is also funded by court fees assessed on various court filings. At present, the State makes no contributions to the Judges' plan.

2010 HIGHLIGHTS

Although the continuation of the recovery in the public equities and fixed income portfolios provided this year's main theme, the Council did continue making progress in the private equity and private real estate portfolios of the Defined Benefit Plans. This progress came in the form of capital commitments to two private equity investments and two private real estate funds.

For the private equity portfolio, the Council committed capital to EIF US Power Fund IV, LP, and Ares Mezzanine Partners, L.P.

For the private real estate portfolio, the Council committed capital to Landmark Real Estate Fund VI, L.P., and the Cornerstone Patriot Fund LP.

Additionally, the Council expanded Loomis Sayles' fixed income mandate from a conservative high yield approach to a full discretion core plus one.

Lastly, the Council changed the passive benchmark for non-U.S. equities from MSCI All Country World ex-U.S. Index to MSCI All Country World ex-U.S. Investible Market Index. This action was taken to provide the Council with a more expansive proxy of the non-U.S. equity markets.

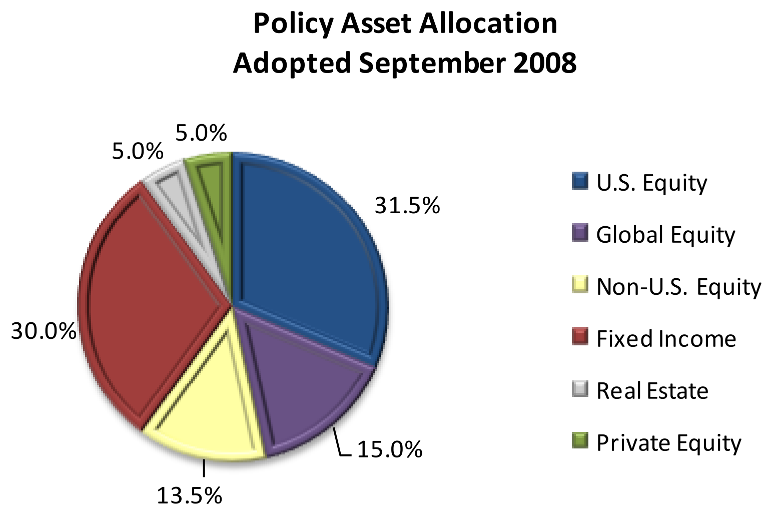
TRANSACTION SUMMARY

	Beginning Balance	Net Contributions	Investment Results	Closing Balance
	(millions of dollars)			
School Retirement System of the State of Nebraska	$6,099	-$ 52	$ 813	$6,860
Nebraska State Patrol Retirement System	236	-5	31	262
Nebraska Judges' Retirement System	105	-1	14	118
Omaha Schools Service Annuity Fund	9	0	1	10
2010 Totals	**$6,449**	**-$ 58**	**$ 859**	**$7,250**
2009 Totals	$5,368	-$ 67	$1,148	$6,449
2008 Totals[1]	7,490	- 67	-2,055	5,368
2007 Totals	6,962	-33	561	7,490
2006 Totals	6,054	9	899	6,962
2005 Totals	5,658	- 5	401	6,054
2004 Totals[2]	5,064	- 9	603	5,658
2003 Totals	4,091	15	952	5,058
2002 Totals	4,494	20	-423	4,091
2001 Totals	4,645	27	-178	4,494
2000 Totals	4,575	29	41	4,645
1999 Totals	4,083	35	456	4,575
1998 Totals	3,474	53	556	4,083
1997 Totals	2,838	73	563	3,474

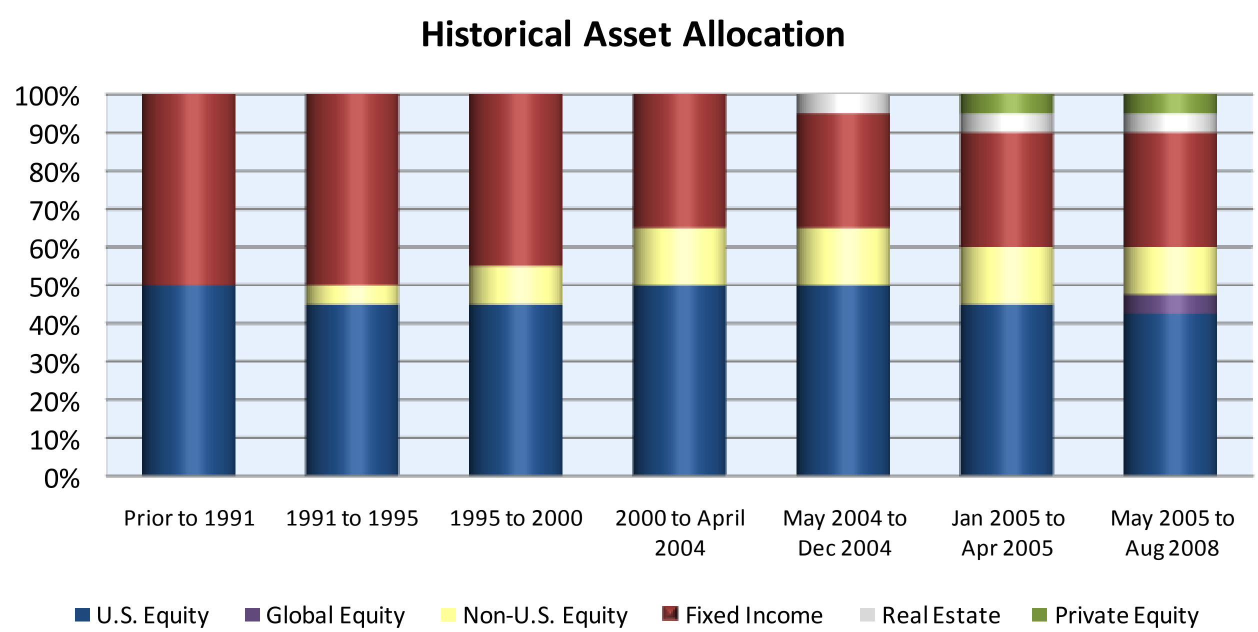
1. Beginning in 2004, the table includes a small investment of DB funds in the Operating Investment Pool (OIP). For 2010, the assets include $8 million in the OIP.
2. As of 2004, the assets include a $5.5 million short-term investment in the Operating Investment Pool (OIP); therefore, the 2003 closing balance differs from the 2004 beginning balance. For further information on the OIP, please see the appropriate section.

ASSET ALLOCATION

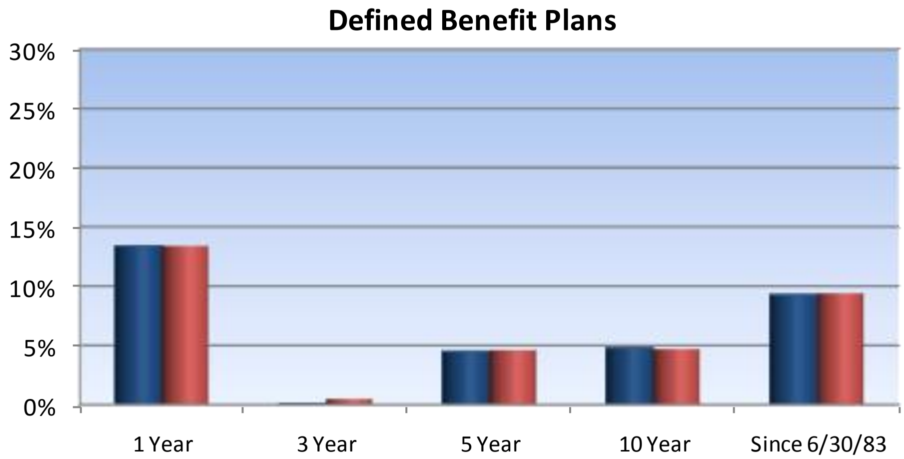
The Council invests the funds of the Defined Benefit Plans in six major asset classes: U.S. equity, global equity, non U.S. equity, fixed income, real estate, and private equity,. The Council has adopted the same long-term asset allocation policy for all three plans. Due to the nature of the liabilities (pension payments), defined benefit plans have very long investment time horizons.



Following an Asset-Liability Study conducted in 2010, the Council reaffirmed the above asset allocation policy at the July 2010 Council meeting.



PERFORMANCE SUMMARY



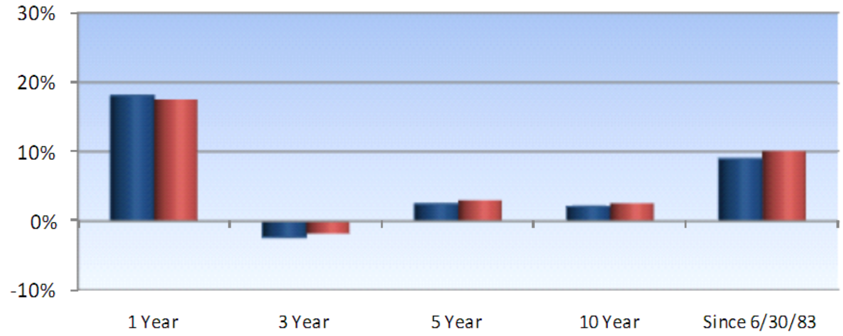
	1 Year	3 Year	5 Year	10 Year	Since 6/30/83
DB Plans	13.4%	0.1%	4.5%	4.8%	9.3%
Benchmark*	13.4%	0.5%	4.6%	4.7%	9.4%

*This is a blended benchmark. As of August 2010, 36.5% DJ U.S. Total Stock Market Index, 15% MSCI All Country World IMI, 13.5% MSCI ACWI ex-US, 30% of the fixed income component, and 5% of the real estate component. As of June 2009, 36.5% DJ U.S. Total Stock Market Index, 15% MSCI ACWI, 13.5% MSCI ACWI ex-US, 30% of the fixed income component, and 5% of the real estate component. As of Dec. 2008, 42.5% of the DJ U.S. Total Stock Market Index, 10% MSCI ACWI, 12.5% of the MSCI ACWI ex-U. S. Index GD, and the fixed income component allocation is comprised of 35% minus the actual allocation of real estate until real estate reaches its 5% target policy. As of Sept. 2005, 47.5% of the DJ U.S. Total Stock Market Index, 5% of the MSCI ACWI, 12.5% MSCI ACWI ex-U.S. Index GD, and the fixed income component allocation is comprised of 35% minus the actual allocation of real estate until real estate reaches its 5% target policy. As of Dec. 2004, the 50% DJ U.S. Total Stock Market Index, 15% MSCI ACWI ex-U.S. Index GD, the actual allocation of real estate, and the fixed income allocation was 35% minus the actual allocation of real estate. Beginning September 1, 2004, the fixed income component of the benchmark was transitioned to the BC Universal Index over a five month period. As of April 2004, 50% DJ U.S. Total Stock market Index, 35% of the Citigroup LPF Index, and 15% MSCI ACWI ex-U.S. Index. Prior to April 2003, 50% DJ U.S. Total Stock Market Index, 35% Citigroup LPF, and 15% MSCI ACWI ex-US Index GD. Prior to Oct. 2000, 45% DJ U.S. Total Stock Market Index, 45% BC Aggregate Bond Index, and 10% MSCI EAFE Index ND. Prior to October 1995, 50% DJ U.S. Total Stock Market Index, 45% BC Aggregate Bond Index, and 5% MSCI EAFE Index ND. Prior to Oct. 1991, 50% DJ U.S. Total Stock Market Index and 50% BC Aggregate Bond Index.

The Defined Benefit Plans are invested identically and share the same investment results. For the calendar year, the total portfolio had a gain of 13.4% which matched the benchmark rate of return. U.S. equity and fixed income contributed to relative performance while non-U.S. equity, global equity and real estate detracted from performance.

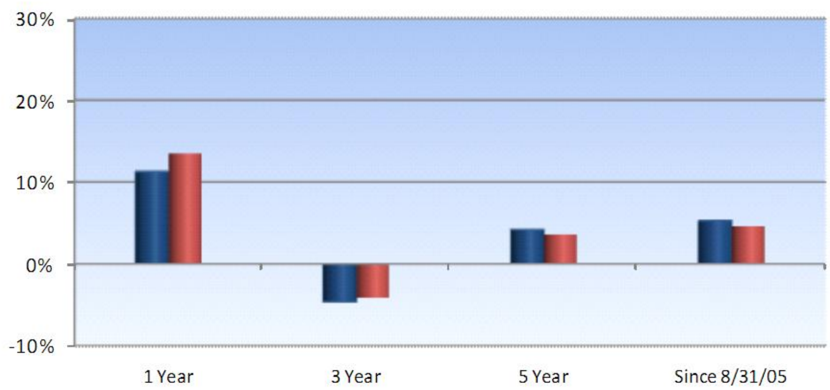
The U.S. equity portfolio outperformed the benchmark, 18.1% versus 17.5%, respectively. The global equity portfolio returned 11.3%, while its benchmark returned 13.5%. The rate of return of the non-U.S. equity portfolio was 9.5% while the benchmark returned 12.4%. Finally, the fixed income portfolio had a return of 10.2% while the benchmark returned 7.2%.

U.S. Equity Composite



	1 Year	3 Year	5 Year	10 Year	Since 6/30/83
U.S. Equity Composite	18.1%	-2.3%	2.5%	2.1%	9.0%
DJ U.S. Stock Mkt Index	17.5%	-1.8%	3.0%	2.6%	10.1%

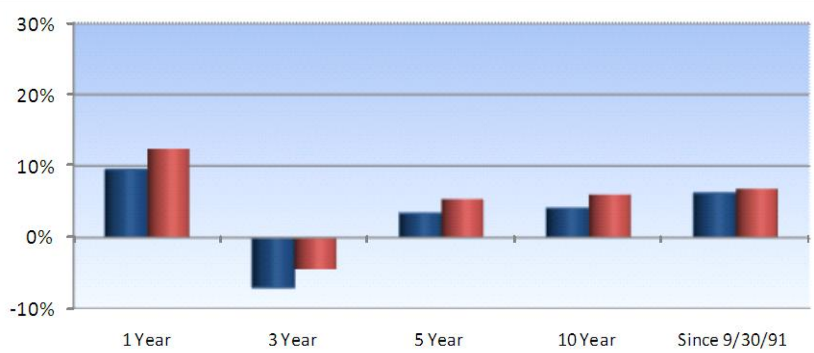
Global Equity Composite



	1 Year	3 Year	5 Year	Since 8/31/05
Global Equity Composite	11.3%	-4.6%	4.2%	5.3%
Benchmark*	13.5%	-4.1%	3.6%	4.6%

*As of August 2010, MSCI All Country World IMI Index. Prior to August 2010, MSCI All Country World Index.

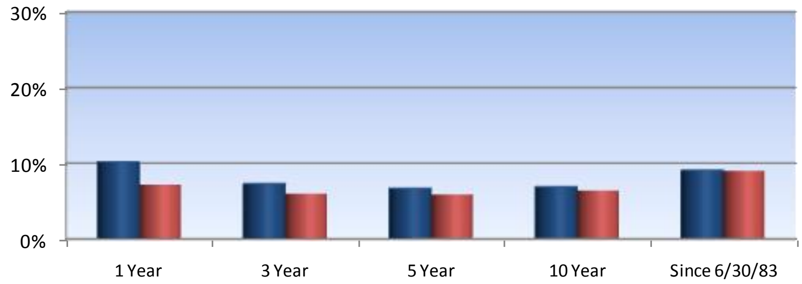
Non-U.S. Equity Composite



	1 Year	3 Year	5 Year	10 Year	Since 9/30/91
Non-U.S. Equity Composite	9.5%	-7.0%	3.4%	4.1%	6.2%
Benchmark*	12.4%	-4.4%	5.4%	6.0%	6.8%

*4Q1991-Sept. 2000 MSCI EAFE; Oct. 2000-present MSCI ACWI ex-U.S.

Fixed Income Composite



	1 Year	3 Year	5 Year	10 Year	Since 6/30/83
Fixed Income Composite	10.2%	7.3%	6.7%	6.9%	9.1%
Benchmark*	7.2%	6.0%	5.9%	6.4%	9.0%

*Prior to Sept. 2004, the Citigroup LPF Index. As of September 2004, the fixed income benchmark was gradually transitioned to the Barclays Universal Index. Therefore, from 9/1/04 to 12/31/04, the fixed income benchmark is a compilation of both the Citigroup LPF and the Barclays Universal Index. Beginning 1/1/05, the fixed income benchmark is solely the Barclays Universal Index.

PORTFOLIO MANAGERS

The performance of all managers is monitored quarterly. All managers are subject to thorough review at least annually. Hewitt Ennis Knupp, the investment consultant to the Council, assists in the performance analysis and review process. The market value for each manager and their fund is listed below.

MANAGER PERFORMANCE

U.S. Equity

	1 Year	3 Years	5 Years	10 Years	Market Value as of 12/31/10 (in millions)
BlackRock Russell 1000 Index	**16.2%**	**-2.3%**	**NA**	**NA**	**$ 2,265**
Russell 1000 Index	*16.1%*	*-2.4%*	*NA*	*NA*	
Dimensional Fund Advisors, Inc.	**33.8%**	**4.4%**	**4.7%**	**12.0%**	**136**
Benchmark[1]	*25.0%*	*4.2%*	*4.9%*	*9.2%*	
Turner Investments	**31.7%**	**0.0%**	**NA**	**NA**	**163**
Russell 2000 Growth Index	*29.1%*	*2.2%*	*NA*	*NA*	

1. The DJ U.S. Small-Cap Value Total Stock Market Index. Prior to August 2006, the Wilshire Small-Cap Value Style Index.

MANAGER PERFORMANCE

Global Equity

	1 Year	3 Years	5 Years	10 Years	Market Value as of 12/31/10 (in millions)
Acadian Asset Management, LLC	**12.0%**	**-9.2%**	**1.8%**	**NA**	**$ 280**
MSCI All-Country World Index	*12.7%*	*-4.3%*	*3.4%*	*NA*	
Ironbridge	**14.7%**	**NA**	**NA**	**NA**	**312**
MSCI All-Country World Index	*12.7%*	*NA*	*NA*	*NA*	
MFS Institutional Advisors, Inc.	**13.1%**	**0.4%**	**6.8%**	**NA**	**281**
MSCI All-Country World Index	*12.7%*	*-4.3%*	*3.4%*	*NA*	
Mondrian	**5.5%**	**NA**	**NA**	**NA**	**288**
MSCI All-Country World Index	*12.7%*	*NA*	*NA*	*NA*	

MANAGER PERFORMANCE
Non-U.S. Equity

	1 Year	3 Years	5 Years	10 Years	Market Value as of 12/31/10 (in millions)
BlackRock World ex-U.S. Index	**9.3%**	**-6.0%**	**3.4%**	**NA**	**$ 351**
MSCI World ex-U.S. Index	*8.9%*	*-6.3%*	*3.0%*	*NA*	
Baillie Gifford Overseas Ltd.	**19.5%**	**1.6%**	**16.1%**	**NA**	**128**
MSCI EMF Index	*18.9%*	*-0.3%*	*12.8%*	*NA*	
Grantham, Mayo, Van Otterloo & Co., LLC	**4.1%**	**-8.6%**	**1.3%**	**NA**	**262**
MSCI EAFE Index	*7.8%*	*-7.0%*	*2.5%*	*NA*	
McKinley	**10.4%**	**NA**	**NA**	**NA**	**237**
MSCI ACWI ex-U.S. Index	*11.2%*	*NA*	*NA*	*NA*	

MANAGER PERFORMANCE
Fixed Income

	1 Year	3 Years	5 Years	10 Years	Market Value as of 12/31/10 (in millions)
BlackRock (Core Plus)	**8.5%**	**6.3%**	**6.0%**	**6.6%**	**$ 609**
Benchmark[1]	*7.2%*	*6.0%*	*5.9%*	*6.4%*	
BlackRock (Distressed Mortgage)	**25.6%**	**5.5%**	**NA**	**NA**	**78**
Barclays Capital Mortgage Index	*6.5%*	*5.9%*	*NA*	*NA*	
BlackRock Aggregate Bond Index	**6.8%**	**6.1%**	**NA**	**NA**	**542**
Barclays Capital Aggregate Bond Index	*6.5%*	*5.9%*	*NA*	*NA*	
Loomis Sayles	**15.2%**	**8.4%**	**NA**	**NA**	**121**
Benchmark[2]	*8.8%*	*8.3%*	*NA*	*NA*	
PIMCO (Core Plus)	**9.0%**	**7.6%**	**7.2%**	**7.5%**	**613**
Benchmark[1]	*7.2%*	*6.0%*	*5.9%*	*6.4%*	
PIMCO (Distressed Mortgage)	**47.9%**	**9.3%**	**NA**	**NA**	**74**
Barclays Capital Mortgage Index	*6.5%*	*5.9%*	*NA*	*NA*	
Operating Investment Pool	**4.9%**	**4.3%**	**4.8%**	**4.6%**	**8**
Benchmark[3]	*5.3%*	*5.0%*	*5.3%*	*4.7%*	

1. Prior to September 2004, the benchmark was the Citigroup LPF. Beginning September 2004, the benchmark was transitioned from the Citigroup LPF to the Barclays Capital Universal Index and was as follows: September 2004, 80% Citigroup LPF/20% Barclays Capital Universal Index; October 2004, 60% Citigroup LPF/40% Barclays Capital Universal Index; November 2004, 40% Citigroup LPF/60% Barclays Capital Universal Index; December 2004, 20% Citigroup LPF/80% Barclays Capital Universal Index. Beginning 1/1/05, the benchmark is the Barclays Capital Universal Index.
2. Prior to July 31, 2010 the benchmark was the Barclays Capital High Yield Index. Beginning August 1, 2010, the benchmark is the Barclays Capital U.S. Universal Bond Index.
3. See Operating Investment Pool section.

MANAGER PERFORMANCE
Real Estate

The real estate portfolio consists of two REIT funds, three open end core funds, and several closed end funds.

The table below illustrates performance for the REIT portfolio as of 12/31/10.

	1 Year	3 Years	5 Years	Market Value as of 12/31/10 (in millions)
Goldman Sachs Asset Management	**28.5%**	**-0.8%**	**2.1%**	**$ 17**
DJ U.S. Select Real Estate Securities Index	*28.5%*	*-0.1%*	*2.2%*	
Heitman (REITs)	**25.7%**	**-0.9%**	**1.2%**	**11**
DJ U.S. Select Real Estate Securities Index	*28.5%*	*-0.1%*	*2.2%*	

The next table represents the three investments in open end core funds for the private real estate portfolio. UBS and Prudential were hired in 2006 and Cornerstone was recently added during 2010. Time-weighted rates of return through 12/31/10 for the two initial investments are shown separately below.

	1 Year	3 Years	5 Years	Market Value as of 12/31/10 (in millions)
Cornerstone Patriot Fund	**NA**	**NA**	**NA**	**$ 45**
NCREIF ODCE Index	*NA*	*NA*	*NA*	
UBS Trumbull Property Fund	**15.9%**	**-6.5%**	**NA**	**95**
NCREIF ODCE Index	*15.3%*	*-10.5%*	*NA*	
Prudential (PRISA)	**17.1%**	**-13.0%**	**NA**	**77**
NCREIF ODCE Index	*15.3%*	*-10.5%*	*NA*	

Investments in several closed end funds have also been made. Private real estate reports are available on a quarter lag and therefore figures shown below are as of 9/30/10. The detail encompasses our total private real estate commitments (open and closed end funds) for both the Defined Benefit Plans and the Cash Balance Plan as those assets are commingled for investment purposes.

Portfolio Detail – DB & CBB	Direct as of 9/30/10
Number of Investments	9
Total Commitments	$416,500,000
Total Paid-In	$315,823,754
IRR since inception	-5.21%
Partnerships	Beacon Capital Strategic Partners Fund V, L.P.
	CB Richard Ellis Strategic partners U. S. Opportunity Fund V, L.P.
	Five Arrows Realty Securities Fund V, L.P.
	Heitman Value Partners Fund II, L.P.
	Landmark Real Estate Partners VI, L.P.
	Prudential Property Investment (2 investments)
	Rockpoint Real Estate Fund III, L.P.
	UBS Trumbull Property Fund

Performance shown above is measured as an internal rate of return not a time-weighted rate of return. A majority of the portfolio at this time is invested in open end funds. The real estate portfolio is still in the investment stage for many of its closed end funds and will continue to invest in closed end funds over time. Therefore, time-weighted rates of return during the initial stages of investment in the closed end funds is not meaningful since a fairly large amount of capital has yet to be called for those funds.

MANAGER PERFORMANCE
Private Equity

The Nebraska Investment Council began allocating to private equity in 2005 with the initial commitment to fund of funds. Starting in 2007 and thereafter, commitments have been made to direct funds. The table below shows detail on the total private equity portfolio. Private equity reports are on a quarter lag and are shown as of 9/30/10. The detail below includes our private equity commitments for both the Defined Benefit Plans and the Cash Balance Plan as those assets are commingled for investment purposes.

Portfolio Detail – DB & CBB	Direct as of 9/30/10	Fund of Funds as of 9/30/10	Total as of 9/30/10
Number of Investments	17	2	19
Total Commitments	$337,502,649	$150,000,000	$487,502,649
Total Paid-In	$112,005,328	$ 89,767,766	$201,773,095
IRR since inception	4.7%	-3.1%	0.4%
Partnerships	Accel-KKR Capital Partners III, L.P.	Abbott Capital Private Equity Fund V, L.P.[1]	
	Ares Corporate Opp. Fund III, L.P.	Pathway Private Equity Fund XVIII, LLC	
	Bridgepoint Europe IV, L.P.		
	Citigroup Venture Capital Int'l Growth Partnership II, L.P.		
	CMEA Ventures VII, L.P.		
	CVC European Equity Partners V, L.P.		
	EIF United States Power Fund IV, L.P.		
	Fulcrum Growth Partners IV, L.P.		
	Lincolnshire Equity Fund IV, L.P.		
	Longroad Capital Partners III, L.P.		
	Merit Mezzanine Fund V, L.P.		
	New Enterprise Associates 13, L.P.		
	New Mountain Partners III, L.P.		
	Quantum Energy Partners V, L.P.		
	The Resolute Fund II, L.P.		
	Sun Capital Partners V, L.P.		
	Wayzata Opportunities Fund II, L.P.		

1. Two investments.

Approximately 47.9% of the total commitments to private equity has been called as of 9/30/10 and the portfolio continued to call capital through 12/31/10. Performance shown above is measured as an internal rate of return not a time-weighted rate of return. At this point, a time-weighted rate of return is not meaningful since a fairly large amount of capital has yet to be called and the portfolio is still in its early stages of development.

Defined Benefit Plans – School, State Patrol, and Judges
Funding Status

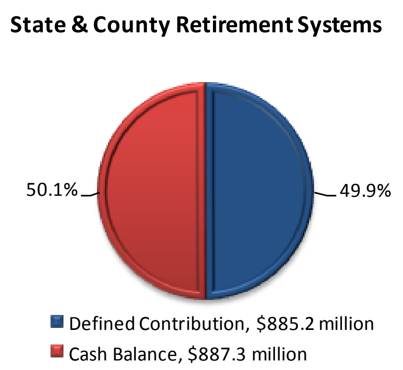
		School	Patrol	Judges	Total
		(millions of dollars)			
June 30, 2010	Assets (actuarial value)	$7,041	$ 273	$ 121	$ 7,435
	Liabilities (AAL)	8,542	322	121	8,985
	Surplus	-$1,501	-$ 49	$ 0	-$ 1,550
	Funded Ratio	82%	85%	100%	83%
June 30, 2009	Assets (actuarial value)	$7,007	$ 274	$ 121	$ 7,403
	Liabilities (AAL)	8,092	305	119	8,516
	Surplus	-$1,085	-$ 31	$ 2	-$ 1,113
	Funded Ratio	87%	90%	102%	87%
June 30, 2008	Assets (actuarial value)	$6,933	$ 273	$ 120	$ 7,326
	Liabilities (AAL)	7,655	292	114	8,061
	Surplus	-$ 722	-$ 19	$ 6	-$ 735
	Funded Ratio	91%	94%	105%	91%
June 30, 2007	Assets (actuarial value)	$6,396	$ 255	$ 111	$ 6,762
	Liabilities (AAL)	7,070	266	104	7,440
	Surplus	-$ 674	-$ 11	$ 7	-$ 678
	Funded Ratio	91%	96%	107%	91%
June 30, 2006	Assets (actuarial value)	$5,739	$ 232	$ 100	$ 6,071
	Liabilities (AAL)	6,584	245	101	6,930
	Surplus	-$ 845	-$ 13	-$ 1	-$ 859
	Funded Ratio	87%	94%	99%	88%
June 30, 2005	Assets (actuarial value)	$5,335	$ 220	$ 95	$ 5,650
	Liabilities (AAL)	6,235	236	99	6,570
	Surplus	-$ 899	-$ 16	-$ 4	-$ 920
	Funded Ratio	86%	93%	96%	86%
June 30, 2004	Assets (actuarial value)	$5,118	$ 216	$ 92	$ 5,426
	Liabilities (AAL)	5,868	222	96	6,186
	Surplus	-$ 750	-$ 6	-$ 3	-$ 760
	Funded Ratio	87%	97%	97%	88%

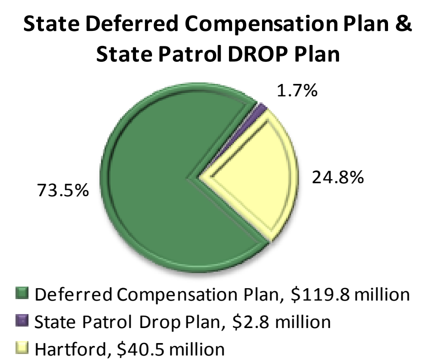
Annual actuarial valuations of the three largest Defined Benefit Plans are performed as of June 30. The table compares the actuarial market values of the assets to the actuary's estimate of the liability at June 30 of each year. The actuarial reports use a smoothing technique for the return on the assets. The information in the tables is from the Nebraska Public Employees Retirement System.

State and County Retirement Systems
& State Deferred Compensation Plan

OVERVIEW

The Nebraska Investment Council oversees the investments for the State Employees Retirement System of the State of Nebraska, the Retirement System for Nebraska Counties, and the State Deferred Compensation Plan. In the Retirement System for Nebraska Counties, all counties are included except Lancaster and Douglas counties. Prior to 1997, the State Deferred Compensation Plan was managed by Hartford Life Insurance Company. Some assets still remain with Hartford. A voluntary Deferred Retirement Option Plan (DROP) was added to the State Patrol Retirement Plan in 2008. For investment purposes, these assets are commingled with the State Deferred Compensation Plan.





State and County Retirement Systems

<u>Defined Contribution Plan</u>

Prior to 2002, employees in the State and County Retirement System Plans only received the Defined Contribution benefit. In December 2002 participants were given the option to remain in the Defined Contribution Plan or transfer to the Cash Balance Plan implemented in January 2003. LB328, passed in 2007, allowed Defined Contribution members another opportunity to transfer to the Cash Balance Plan.

Members who remain in the Defined Contribution Plan make their own investment choices based on the funds offered. Contributions to these accounts come from both the employee and the employer. With the passage of LB 366, State employees are required to contribute 4.8% of their salary. The State matches the employee contribution at the rate of 156%. County employees are required to contribute 4.5% of their salary. The county matches the employee contribution at the rate of 150%. The account balance for both state and county employees consists of accumulated contributions plus investment gains or losses.

<u>Cash Balance Plan</u>

Since January 2003, the accounts for all new employees who participate in the State and County Retirement System Plans are automatically invested in the Cash Balance Plan. Members who participate in the Cash Balance Plan do not make their own investment choices. Contributions to these accounts come from both the employee and the employer, and the rates are identical to those in the Defined Contribution Plan. The assets are held in a trust fund which is managed by the Nebraska Investment Council. Cash Balance participants are guaranteed an annual interest credit rate which is defined in statute as the greater of 5% or the federal mid-term rate plus 1.5%. The interest credit rate is reset each calendar quarter.

State Deferred Compensation Plan, Hartford and State Patrol DROP

Deferred Compensation Plan (current version)
The voluntary Deferred Compensation Plan for State employees offers the same investments as those offered in the State and County Retirement Systems' Defined Contribution Plan. Combining the investment options of the State Deferred Compensation Plan and the State and County Defined Contribution Plan provides a reduction in costs for participants making voluntary contributions.

Hartford
Effective January 1, 1997, the investment management of the State Deferred Compensation Plan assets was changed from Hartford Life Insurance Company to the Nebraska Investment Council, with different investment options. Contributions to the Hartford investment options have not been allowed since then and participants remaining in the Hartford investment options may transfer their balances from Hartford to the current State Deferred Compensation investment options at any time. Given the absence of new cash flows, the Council expects the Hartford investment options to lose assets over time.

State Patrol DROP
A retirement payment option called "DROP" is available in the State Patrol Retirement Plan. DROP stands for Deferred Retirement Option Plan. The feature is voluntary and provides a way for a Patrol Plan member to receive a lump-sum amount at retirement in addition to an ongoing monthly retirement benefit, in exchange for working up to five more years (but not beyond age 60). The account will be invested by the member using the 13 investment funds offered in the voluntary Deferred Compensation Plan (DCP). The member assumes full responsibility for how the DROP account is invested and for any market gains or losses.

2010 HIGHLIGHTS

Defined Contribution Plan/Deferred Compensation Plan (current version)
There were no changes made to the investment line-up offered in the Defined Contribution Plan or the Deferred Compensation Plan.

Cash Balance Plan
Although the continuation of the recovery in the public equities and fixed income portfolios provided this year's main theme, the Council did continue making progress in the private equity and private real estate portfolios of the Cash Balance Plan. This progress came in the form of capital commitments to two private equity investments and two private real estate funds.

For the private equity portfolio, the Council committed capital to EIF US Power Fund IV, LP, and Ares Mezzanine Partners, L.P.

For the private real estate portfolio, the Council committed capital to Landmark Real Estate Fund VI, L.P., and the Cornerstone Patriot Fund LP.

Additionally, the Council expanded Loomis Sayles' fixed income mandate from a conservative high yield approach to a full discretion core plus one.

Lastly, the Council moved the passive benchmark for non-U.S. equities from MSCI All Country World ex-U.S. Index to MSCI All Country World ex-U.S. Investible Market Index. This action was taken to provide the Council with a more expansive proxy of the non-U.S. equity markets.

In 2010, the Public Employees Retirement Board voted to not issue a dividend for the time period 1/1/09 through 12/31/09. For the 2009 plan year, Cash Balance assets for both the State and County plan were below 100% funded on an actuarial and current value basis. By law, the Public Employees

Retirement Board (PERB) is required to maintain a cushion of 10% of the assets before any dividend is paid out. For the State plan, in 2009 the rate of return on actuarial value of 1.6% fell short of the 7.75% assumed asset return. For the County plan, in 2009 the rate of return on actuarial value of 1.7% fell short of the 7.75% assumed asset return. If there had been a dividend awarded, this would have occurred during calendar year 2010.

TRANSACTION SUMMARY[1]

	Beginning Balance	Net Contributions	Investment Results	Closing Balance
	(millions of dollars)			
Defined Contribution Plan/State Deferred Comp.[2]	$ 900	-$ 56	$ 164	$ 1,008
Cash Balance Plan	758	26	103	887
Hartford[3]	38	-2	4	40
2010 Totals	**$ 1,696**	**- $32**	**$ 271**	**$ 1,935**
2009 Totals	$ 1,371	-$151	$ 476	$ 1,696
2008 Totals	1,788	282	- 699	1,371
2007 Totals	1,663	11	114	1,788
2006 Totals	1,456	20	187	1,663
2005 Totals	1,355	23	79	1,456
2004 Totals	1,202	31	121	1,355
2003 Totals	973	42	187	1,202
2002 Totals	1,035	21	-83	973
2001 Totals	1,045	15	-25	1,035
2000 Totals	1,057	3	-15	1,045
1999 Totals	934	-4	127	1,057
1998 Totals	849	-5	91	934
1997 Totals	765	-6	89	849

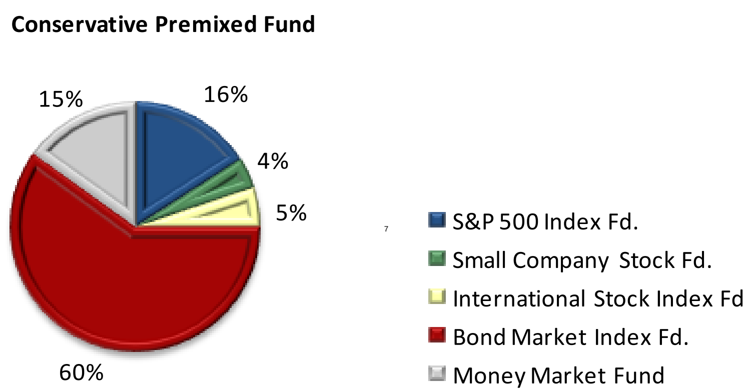
1. Consistently prepared figures are not available prior to 1997
2. Includes the State Patrol "DROP" plan.
3. Includes the General Account which receives a variable crediting rate each quarter.

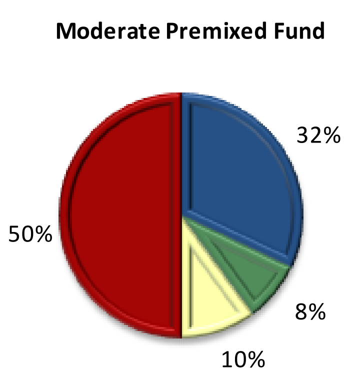
ASSET ALLOCATION

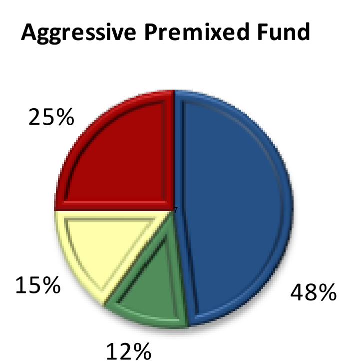
For both employee and employer contributions, a participant selects among thirteen investment funds offered by the Plans. The Council selects, monitors, and terminates, when necessary, these funds. Because participants direct the investment of these contributions, the participant determines the allocation to each of these funds. Prior to July 1, 1999, participants did not determine the investment option for the employer contributions into the Plans. In 1999, the Nebraska State Legislature, in coordination with the Council and the Public Employees Retirement Board, changed the provisions to allow participant direction over employer contributions.

The State Deferred Compensation Plan is voluntary and participants may choose to invest their assets in any of the available Defined Contribution investment funds. By offering the same investment funds for both the Defined Contribution Plan (mandatory contributions) and the State Deferred Compensation Plan (voluntary contributions), plan participants may find it easier to implement an integrated investment strategy. Combining the investment options also provides a reduction in costs for participants.

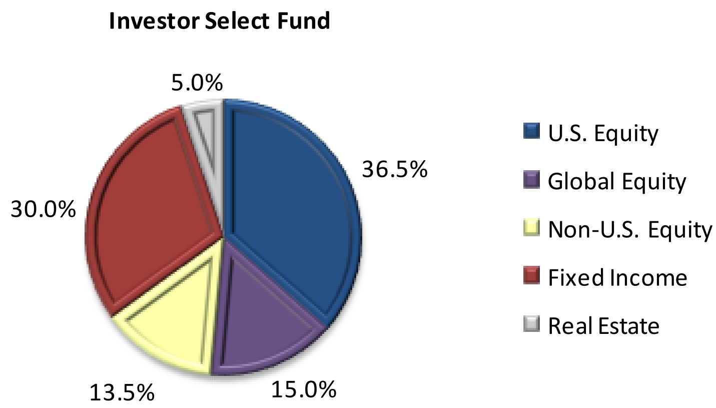
Participants may choose to invest in eight individual investment funds, four premixed funds, or the Age-based option. Assets in the premixed funds are invested in several of the other fund offerings according to target allocations. The Age-based option utilizes these existing premixed funds to function together as a "life cycle" fund. This means that asset allocations will automatically become more conservative as the member gets closer to retirement age. The target allocations are displayed below for the premixed funds.







The Investor Select Fund is invested substantially similar to the Defined Benefit Plans for the School Retirement System of the State of Nebraska, the Nebraska State Patrol Retirement System, the Nebraska Judges' Retirement System, and the Omaha Schools Service Annuity Fund.



PERFORMANCE SUMMARY

Each participant chooses his or her own investment strategy. Therefore, performance measurement for the State and County Retirement Plans and the State Deferred Compensation Plan is limited to manager performance.

PORTFOLIO MANAGERS

The performance of all managers is monitored quarterly. All managers are subject to thorough reviews at least annually. Hewitt Ennis Knupp, investment Consultant for the Council, also assists in the performance analysis and review. The market value for each manager and their fund is listed below.

MANAGER PERFORMANCE

U.S. Equity

	1 Year	3 Years	5 Years	10 Years	Market Value as of 12/31/10 (in millions)
S&P 500 Stock Index	**15.2%**	**-2.7%**	**2.5%**	**1.5%**	**$ 126**
S&P 500 Index	*15.1%*	*-2.9%*	*2.3%*	*1.4%*	
Large Growth Stock Index Fund	**16.8%**	**-0.3%**	**3.9%**	**0.1%**	**28**
Russell 1000 Growth Index	*16.7%*	*-0.5%*	*3.8%*	*0.0%*	
Large Value Stock Index Fund	**15.7%**	**-4.3%**	**1.4%**	**3.3%**	**28**
Russell 1000 Value Index	*15.5%*	*-4.4%*	*1.3%*	*3.3%*	
Small Company Stock Fund	**30.7%**	**4.5%**	**5.2%**	**8.3%**	**49**
Russell 2000 Index	*26.9%*	*2.2%*	*4.5%*	*6.3%*	

MANAGER PERFORMANCE

Non-U.S. Equity

	1 Year	3 Years	5 Years	10 Years	Market Value as of 12/31/10 (in millions)
International Stock Index	**11.2%**	**-4.4%**	**5.2%**	**NA**	**$ 39**
MSCI ACWI ex-U.S.	*11.2%*	*-5.0%*	*4.8%*	*NA*	

MANAGER PERFORMANCE
Fixed Income

	1 Year	3 Years	5 Years	10 Years	Market Value as of 12/31/10 (in millions)
Bond Market Index	**6.6%**	**6.0%**	**5.9%**	**5.9%**	**$ 19**
Barclays Capital Aggregate Bond Index	*6.5%*	*5.9%*	*5.8%*	*5.8%*	
Stable Value Fund	**3.4%**	**3.9%**	**4.2%**	**4.6%**	**157**
Benchmark[1]	*3.1%*	*3.6%*	*4.1%*	*3.5%*	
Money Market Fund	**0.2%**	**1.1%**	**2.7%**	**2.5%**	**10**
90-Day Treasury Bill	*0.2%*	*0.9%*	*2.5%*	*2.4%*	

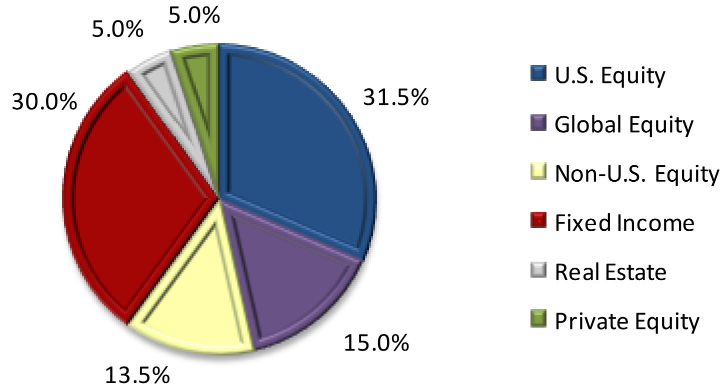
1. Prior to June 1, 2004, the benchmark was the 90-day Treasury Bill. Beginning June 2004, the benchmark is the Hueler Index.

MANAGER PERFORMANCE
Premixed Funds

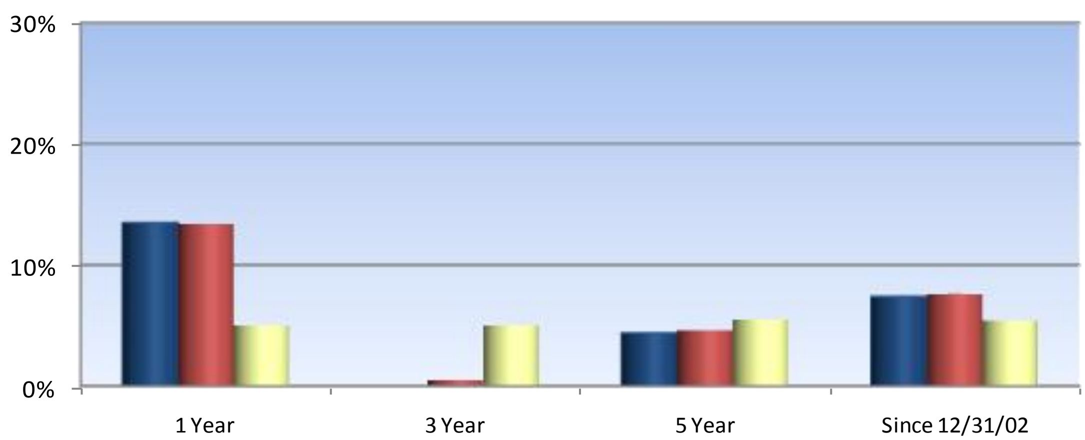
	1 Year	3 Years	5 Years	10 Years	Market Value as of 12/31/10 (in millions)
Conservative Premixed Fund	**8.5%**	**4.2%**	**5.5%**	**4.7%**	**$ 28**
Custom Benchmark	*8.3%*	*3.4%*	*4.7%*	*4.3%*	
Moderate Premixed Fund	**12.1%**	**3.3%**	**5.6%**	**4.9%**	**438**
Custom Benchmark	*11.9%*	*2.3%*	*4.9%*	*4.5%*	
Aggressive Premixed Fund	**14.7%**	**1.0%**	**4.8%**	**4.1%**	**71**
Custom Benchmark	*14.2%*	*0.2%*	*4.3%*	*4.0%*	
Investor Select Fund	**13.5%**	**2.0%**	**5.2%**	**NA**	**15**
Custom Benchmark	*14.0%*	*0.8%*	*4.6%*	*NA*	

ASSET ALLOCATON

The Nebraska Investment Council has chosen the following investment strategy for the Cash Balance Plan. This strategy is designed to mirror the investment strategy of the Defined Benefit Plans.



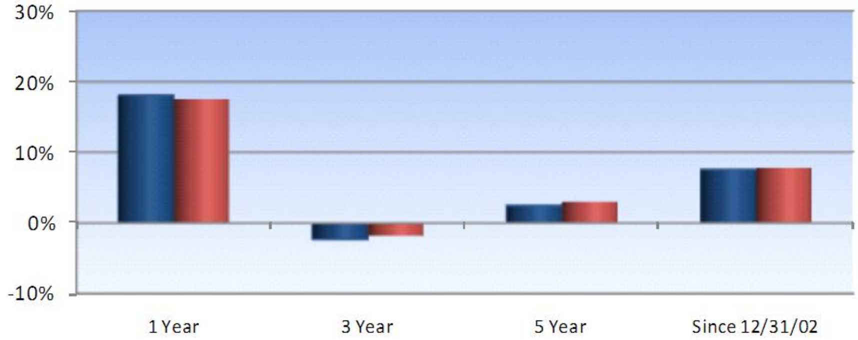
PERFORMANCE SUMMARY



	1 Year	3 Year	5 Year	Since 12/31/02
Cash Balance Plan	13.5%	0.0%	4.4%	7.4%
Benchmark	13.4%	0.5%	4.6%	7.6%
Interest Credit Rate	5.0%	5.0%	5.5%	5.4%

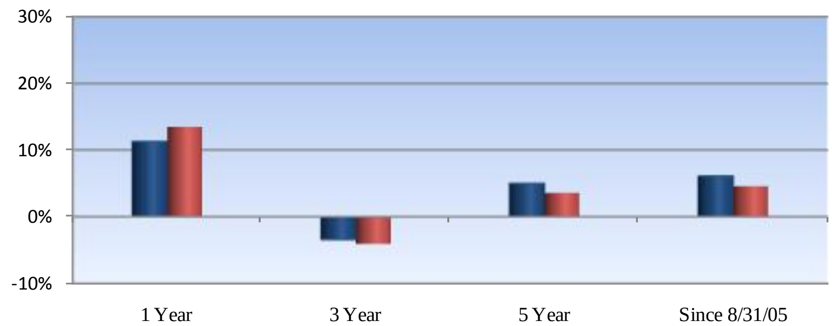
The investments in the Cash Balance Plan returned 13.5% in 2010. This return is above the crediting rate earned by participants during the year. In 2010, participants in the Cash Balance Plan earned an average of 5.0%, as the federal mid-term rate plus 1.5% was at or below 5%, the guaranteed minimum crediting rate. When investment performance results are above the interest credit rate plus the required reserve, the Public Employees Retirement Board (PERB) has the option to issue a dividend to plan members, or the Nebraska State Legislature may pass legislation to improve plan benefits. In 2010, the Public Employees Retirement Board voted to not issue a dividend for the time period 1/1/09 through 12/31/09. PERB will review the 1/1/10 through 12/31/10 time period during calendar year 2011.

U.S. Equity Composite



	1 Year	3 Year	5 Year	Since 12/31/02
U.S. Equity Composite	18.1%	-2.3%	2.5%	7.6%
DJ U.S. Total Stock Market Index	17.5%	-1.8%	3.0%	7.8%

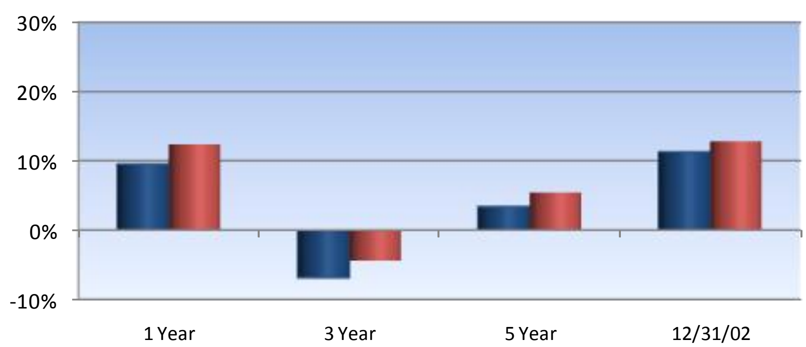
Global Equity Composite



	1 Year	3 Year	5 Year	Since 8/31/05
Global Equity Composite	11.3%	-3.4%	5.0%	6.1%
Benchmark*	13.5%	-4.1%	3.6%	4.6%

*As of August 2010, MSCI All Country World IMI Index. Prior to August 2010, MSCI All Country World Index.

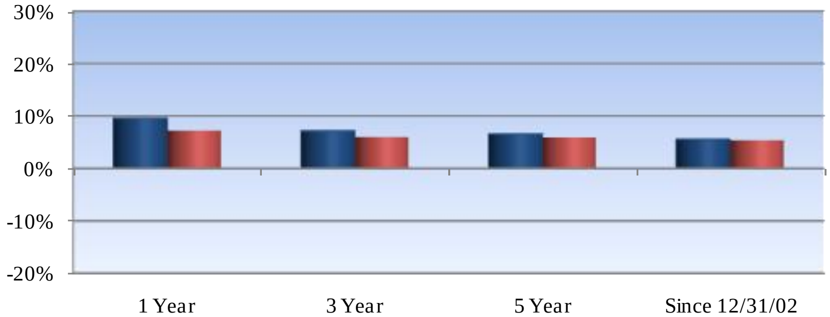
Non-U.S. Equity Composite



	1 Year	3 Year	5 Year	12/31/02
Non-U.S. Equity Composite	9.5%	-6.9%	3.4%	11.3%
Benchmark*	12.4%	-4.4%	5.4%	12.8%

*Prior to October 2000, MSCI EAFE Index. As of October 2000, the MSCI All Country World ex-U.S. Index, gross of dividends.

Fixed Income Composite



	1 Year	3 Year	5 Year	Since 12/31/02
Fixed Income Composite	9.6%	7.2%	6.6%	5.6%
Benchmark*	7.2%	6.0%	5.9%	5.4%

*Prior to Sept. 2004, the Citigroup LPF Index. As of September 2004, the fixed income benchmark was gradually transitioned to the Barclays Capital Universal Index. Therefore, from 9/1/04 to 12/31/04, the fixed income benchmark is a compilation of both the Citigroup LPF and the Barclays Capital Universal Index. Beginning 1/1/05, the fixed income benchmark is solely the Barclays Capital Universal Index.

PORTFOLIO MANAGERS

The performance of all managers is monitored quarterly. All managers are subject to thorough review at least annually. Hewitt Ennis Knupp, the investment consultant to the Council, assists in the performance analysis and review process. The market value for each manager and their fund is listed in the following tables.

MANAGER PERFORMANCE

U.S. Equity

	1 Year	3 Years	5 Years	Market Value as of 12/31/10 (in millions)
BlackRock Russell 1000 Index	**16.2%**	**-2.3%**	**NA**	**$ 276**
Russell 1000 Index	*16.1%*	*-2.4%*	NA	
Dimensional Fund Advisors, Inc.	**33.8%**	**4.4%**	**4.8%**	**17**
Benchmark[1]	*25.0%*	4.2%	4.9%	
Turner	**31.7%**	**0.0%**	**NA**	**20**
Russell 2000 Growth Index	*29.1%*	2.2%	NA	

1. The DJ U.S. Small-Cap Value Total Stock Market Index. Prior to August 2006, the Wilshire Small Cap-Value Style Index.

MANAGER PERFORMANCE

Global Equity

	1 Year	3 Years	5 Years	Market Value as of 12/31/10 (in millions)
Acadian Asset Management, LLC	**12.0%**	**-9.2%**	**1.7%**	**$ 34**
MSCI All-Country World Index	*12.7%*	*-4.3%*	*3.4%*	
Ironbridge	**14.7%**	**NA**	**NA**	**38**
MSCI All-Country World Index	*12.7%*	*NA*	*NA*	
MFS Institutional Advisors, Inc.	**13.1%**	**0.4%**	**6.8%**	**34**
MSCI All-Country World Index	*12.7%*	*-4.3%*	*3.4%*	
Mondrian	**5.5%**	**NA**	**NA**	**35**
MSCI All-Country World Index	*12.7%*	*NA*	*NA*	

MANAGER PERFORMANCE
Non-U.S. Equity

	1 Year	3 Years	5 Years	Market Value as of 12/31/10 (in millions)
BlackRock World ex-U.S. Index *MSCI World ex-U.S. Index*	**9.3%** *8.9%*	**-6.0%** *-6.3%*	**3.4%** *3.0%*	**$ 43**
Baillie Gifford Overseas Ltd. *MSCI EMF Index*	**19.5%** *18.9%*	**1.6%** *-0.3%*	**16.0%** *12.8%*	**16**
Grantham, Mayo, Van Otterloo & Co., LLC *MSCI EAFE Index*	**4.1%** *7.8%*	**-8.6%** *-7.0%*	**1.3%** *2.5%*	**32**
McKinley *MSCI ACWI ex-U.S. Index*	**10.4%** *11.2%*	**NA** *NA*	**NA** *NA*	**29**

MANAGER PERFORMANCE
Fixed Income

	1 Year	3 Years	5 Years	Market Value as of 12/31/10 (in millions)
BlackRock (Core Plus) *Benchmark*[1]	**8.5%** *7.2%*	**6.3%** *6.0%*	**6.0%** *5.9%*	**$ 74**
BlackRock (Distressed Mortgage) *Barclays Capital Mortgage Index*	**19.9%** *6.5%*	**3.9%** *5.9%*	**NA** *NA*	**10**
BlackRock Aggregate Bond Index *Barclays Capital Aggregate Bond Index*	**6.8%** *6.5%*	**6.1%** *5.9%*	**NA** *NA*	**66**
Loomis Sayles *Benchmark*[2]	**15.2%** *8.8%*	**8.4%** *8.3%*	**NA** *NA*	**15**
PIMCO (Core Plus) *Benchmark*[1]	**9.0%** *7.2%*	**7.6%** *6.0%*	**7.2%** *5.9%*	**75**
PIMCO (Distressed Mortgage) *Barclays Capital Mortgage Index*	**47.9%** *6.5%*	**9.3%** *5.9%*	**NA** *NA*	**9**
Cash Balance – Money Market[3] *Treasury Bills*	**0.1%** 0.1%	**0.6%** 0.5%	**2.0%** 1.8%	**6**

1. Prior to September 2004, the benchmark was the Citigroup LPF. Beginning September 2004, the benchmark was transitioned from the Citigroup LPF to the Barclays Capital Universal Index and was as follows: September 2004, 80% Citigroup LPF/20% Barclays Capital Universal Index; October 2004, 60% Citigroup LPF/40% Barclays Capital Universal Index; November 2004, 40% Citigroup LPF/60% Barclays Capital Universal Index; December 2004, 20% Citigroup LPF/80% Barclays Capital Universal Index. Beginning 1/1/05, the benchmark is the Barclays Capital Universal Index.
2. Prior to July 31, 2010 the benchmark was the Barclays Capital High Yield Index. Beginning August 1, 2010, the benchmark is the Barclays Capital U.S. Universal Bond Index.
3. This account is used for daily cash flows for the Cash Balance Plan. Prior to August 2007, it contained a money market fund along with Guaranteed Investment Contracts which were held until maturity. Beginning 9/2007, this account is comprised solely of a money market fund.

MANAGER PERFORMANCE
Real Estate

The real estate portfolio consists of two REIT funds, three open end core funds, and several closed end funds.

The table below illustrates performance for the REIT portfolio as of 12/31/10.

	1 Year	3 Years	5 Years	Market Value as of 12/31/10 (in millions)
Goldman Sachs Asset Management	**28.5%**	**-0.8%**	**2.1%**	**$ 2**
DJ U.S. Select Real Estate Securities Index	*28.5%*	*-0.1%*	*2.2%*	
Heitman (REITs)	**25.7%**	**-0.9%**	**1.3%**	**1**
DJ U.S. Select Real Estate Securities Index	*28.5%*	*-0.1%*	*2.2%*	

The next table represents the three investments in open end core funds for the private real estate portfolio. UBS and Prudential were hired in 2006 and Cornerstone was recently added during 2010. Time-weighted rates of return through 12/31/10 for the two initial investments are shown separately below.

	1 Year	3 Years	5 Years	Market Value as of 12/31/10 (in millions)
Cornerstone Patriot Fund	**NA**	**NA**	**NA**	**$ 5**
NCREIF ODCE Index	*NA*	*NA*	*NA*	
UBS Trumbull Property Fund	**15.9%**	**-6.5%**	**NA**	**12**
NCREIF ODCE Index	*15.3%*	*-10.5%*	*NA*	
Prudential (PRISA)	**17.1%**	**-13.0%**	**NA**	**9**
NCREIF ODCE Index	*15.3%*	*-10.5%*	*NA*	

Investments in several closed end funds have also been made. Private real estate reports are available on a quarter lag and therefore figures shown below are as of 9/30/10. The detail encompasses our total private real estate commitments (open and closed end funds) for both the Defined Benefit Plans and the Cash Balance Plan as those assets are commingled for investment purposes.

Portfolio Detail – DB & CBB	Direct as of 9/30/10
Number of Investments	9
Total Commitments	$416,500,000
Total Paid-In	$315,823,754
IRR since inception	-5.21%
Partnerships	Beacon Capital Strategic Partners Fund V, L.P.
	CB Richard Ellis Strategic partners U. S. Opportunity Fund V, L.P.
	Five Arrows Realty Securities Fund V, L.P.
	Heitman Value Partners Fund II, L.P.
	Landmark Real Estate Partners VI, L.P.
	Prudential Property Investment (2 investments)
	Rockpoint Real Estate Fund III, L.P.
	UBS Trumbull Property Fund

Performance shown above is measured as an internal rate of return not a time-weighted rate of return. A majority of the portfolio at this time is invested in open end funds. The real estate portfolio is still in the investment stage for many of its closed end funds and will continue to invest in closed end funds over time. Therefore, time-weighted rates of return during the initial stages of investment in the closed end funds is not meaningful since a fairly large amount of capital has yet to be called for those funds.

MANAGER PERFORMANCE
Private Equity

The Nebraska Investment Council began allocating to private equity in 2005 with the initial commitment to fund of funds. Starting in 2007 and thereafter, commitments have been made to direct funds. The table below shows detail on the private equity portfolio. Private equity reports are on a quarter lag and are shown as of 9/30/10. The detail below includes our private equity commitments for both the Defined Benefit Plans and the Cash Balance Plan as those assets are commingled for investment purposes.

Portfolio Detail – DB & CBB	Direct as of 9/30/10	Fund of Funds as of 9/30/10	Total as of 9/30/10
Number of Investments	17	2	19
Total Commitments	$337,502,649	$150,000,000	$487,502,649
Total Paid-In	$112,005,328	$ 89,767,766	$201,773,095
IRR since inception	4.7%	-3.1%	0.4%
Partnerships	Accel-KKR Capital Partners III, L.P.	Abbott Capital Private Equity Fund V, L.P.[1]	
	Ares Corporate Opp. Fund III, L.P.	Pathway Private Equity Fund XVIII, LLC	
	Bridgepoint Europe IV, L.P.		
	Citigroup Venture Capital Int'l Growth Partnership II, L.P.		
	CMEA Ventures VII, L.P.		
	CVC European Equity Partners V, L.P.		
	EIF United States Power Fund IV, L.P.		
	Fulcrum Growth Partners IV, L.P.		
	Lincolnshire Equity Fund IV, L.P.		
	Longroad Capital Partners III, L.P.		
	Merit Mezzanine Fund V, L.P.		
	New Enterprise Associates 13, L.P.		
	New Mountain Partners III, L.P.		
	Quantum Energy Partners V, L.P.		
	The Resolute Fund II, L.P.		
	Sun Capital Partners V, L.P.		
	Wayzata Opportunities Fund II, L.P.		

1. Two investments.

Approximately 47.9% of the total allocation to private equity has been called as of 9/30/10 and the portfolio continued to call capital through 12/31/10. Performance shown above is measured as an internal rate of return versus a time-weighted rate of return. At this point, performance is not meaningful since a fairly large amount of capital has yet to be called and the portfolio is still in its early stages of development.

Deferred Compensation Plan
Hartford Life Insurance Company
(investment options prior to 1997)

ASSET ALLOCATION

Investment options with Hartford consist of interest bearing deposits in Hartford's General Account plus a large number of mutual funds. Some of the mutual funds are managed by Hartford, frequently using a sub advisor. Some are managed by other mutual fund companies. No new contributions are allowed into the Hartford funds. Participants in the Hartford investments have the choice of leaving their balances at Hartford or transferring them to one or more of the current State Deferred Compensation investment fund options.

PERFORMANCE SUMMARY

Performance measurement for the Hartford options of the State Deferred Compensation Plan is limited to manager performance. For reference, up to ten years of historical performance is shown for each fund if available.

MANAGER PERFORMANCE

U.S. Equity

	1 Year	*3 Years*	*5 Years*	*10 Years*	**Market Value as of 12/31/10 (in 000's)**
American Century Investment Mgmt.					
-Value *DJ U.S. Large Value Index*	**13.4%** *15.2%*	**-0.2%** *-5.1%*	**2.2%** *0.8%*	**5.5%** *2.6%*	**$ 226**
American Funds					
-Growth Fund of America *Russell 3000 Growth Index*	**12.3%** *17.6%*	**-2.7%** *-0.3%*	**2.5%** *3.9%*	**2.8%** *0.3%*	**888**
Davis Selected Advisers					
-Davis New York Venture *S&P 500 Index*	**12.1%** *15.1%*	**-3.9%** *-2.9%*	**1.4%** *2.3%*	**2.6%** *1.4%*	**29**
Goldman Sachs					
-Mid-Cap Value *Russell Mid-Cap Value Index*	**24.4%** *24.8%*	**1.4%** *1.0%*	**4.4%** *4.1%*	**9.0%** *8.1%*	**405**
Hartford					
-Capital Appreciation[1] *DJ U.S. Total Stock Market Index*	**16.5%** *17.5%*	**-2.6%** *-1.8%*	**4.7%** *3.0%*	**6.3%** *2.6%*	**19,932**
-Dividend & Growth[1] *DJ U.S. Large Value Index*	**13.2%** *15.2%*	**-1.6%** *-5.1%*	**4.4%** *0.8%*	**4.4%** *2.6%*	**664**
-Small Company HLS *Russell 2000 Index*	**24.1%** *26.9%*	**-1.6%** *2.2%*	**4.5%** *4.5%*	**4.6%** *6.3%*	**139**
Munder Capital Management					
-Mid-Cap Core Growth *Russell Mid-Cap Growth Index*	**25.2%** *26.4%*	**-2.2%** *1.0%*	**4.7%** *4.9%*	**6.9%** *3.1%*	**150**
Skyline Asset Management					
- Special Equities Portfolio *DJ U.S. Small Value Index*	**26.1%** *25.0%*	**4.9%** *4.2%*	**4.3%** *4.9%*	**9.0%** *9.2%*	**599**

1. Wellington Management is the sub advisor.

MANAGER PERFORMANCE
U.S. Equity

	1 Year	3 Years	5 Years	10 Years	Market Value as of 12/31/10 (in 000's)
State Street Global Advisors					
-Russell 2000 Index *Russell 2000 Index*	**20.8%** *26.9%*	**0.4%** *2.2%*	**3.1%** *4.5%*	**5.2%** *6.3%*	**$ 52**
-S&P 500 Flagship *S&P 500 Index*	**14.4%** *15.1%*	**-3.3%** *-2.9%*	**1.8%** *2.3%*	**0.9%** *1.4%*	**419**
-Mid-Cap Index *Russell Mid-Cap Index*	**25.8%** *25.5%*	**2.9%** *1.1%*	**5.1%** *4.7%*	**6.5%** *6.5%*	**157**
T.Rowe Price					
- Growth Stock *Russell 1000 Growth Index*	**16.7%** *16.7%*	**-1.3%** *-0.5%*	**3.8%** *3.8%*	**2.5%** *0.0%*	**457**

MANAGER PERFORMANCE
Non-U.S. Equity

	1 Year	*3 Years*	*5 Years*	*10 Years*	Market Value as of 12/31/10 (in 000's)
AllianceBernstein					
-International Value *MSCI EAFE Index*	**3.4%** *7.8%*	**-13.6%** *-7.0%*	**-1.9%** *2.5%*	**NA** *NA*	**$ 38**
American Funds					
-EuroPacific Growth *MSCI EAFE Index*	**9.4%** *7.8%*	**-3.3%** *-7.0%*	**5.6%** *2.5%*	**6.7%** *3.5%*	**569**
Franklin Mutual Advisers					
-Mutual Discovery *MSCI EAFE Index*	**11.1%** *7.8%*	**-0.5%** *-7.0%*	**6.1%** *2.5%*	**8.2%** *3.5%*	**541**
Hartford					
-International Opportunities[1] *MSCI EAFE Index*	**14.5%** *7.8%*	**-4.1%** *-7.0%*	**6.9%** *2.5%*	**5.3%** *3.5%*	**1,556**

1. Wellington Management is the sub advisor

MANAGER PERFORMANCE
Fixed Income

	1 Year	*3 Years*	*5 Years*	*10 Years*	Market Value as of 12/31/10 (in 000's)
Hartford					
-Total Return Bond HLS *Barclays Capital Aggregate Bond Index*	**7.5%** *6.5%*	**4.5%** *5.9%*	**4.6%** *5.8%*	**5.7%** *5.8%*	**$ 1,266**
- General Account[2]	*NA*	*NA*	*NA*	*NA*	**8,005**
Loomis Sayles					
-Bond Fund *Barclays Capital Aggregate Bond Index*	**13.3%** *6.5%*	**6.5%** *5.9%*	**7.7%** *5.8%*	**9.6%** *5.8%*	**88**
Putnam Retail Management, Inc.					
-High Yield Advantage *CS First Boston High Yield Index*	**13.3%** *13.6%*	**8.4%** *8.9%*	**8.1%** *8.2%*	**8.3%** *9.2%*	**295**

2. The general account has a quarterly declared rate which is credited to each member's account.

MANAGER PERFORMANCE
Balanced Funds

	1 Year	*3 Years*	*5 Years*	*10 Years*	**Market Value as of 12/31/10 (in 000's)**
Hartford					
-Advisers[1]	**12.1%**	**0.0%**	**3.3%**	**2.5%**	**$ 3,015**
Conservative Lifestyle Index[2]	*11.0%*	*1.1%*	*3.9%*	*3.4%*	
Oakmark					
-Equity & Income	**9.2%**	**2.9%**	**6.1%**	**8.5%**	**918**
Russell 1000 Value Index	*15.5%*	*-4.4%*	*1.3%*	*3.3%*	
State Street Global Advisors					
-DJ Target Today Fund	**5.5%**	**3.5%**	**4.2%**	**4.8%**	**30**
DJ Target Today Benchmark	*7.9%*	*5.0%*	*5.6%*	*6.1%*	
-DJ Target 2015 Fund	**NA**	**NA**	**NA**	**NA**	**26**
DJ Target 2015Benchmark	*NA*	*NA*	*NA*	*NA*	
-DJ Target 2025 Fund	**12.8%**	**-0.1%**	**3.9%**	**5.1%**	**32**
DJ Target 2025 Benchmark	*14.9%*	*0.2%*	*4.2%*	*5.5%*	
-DJ Target 2035 Fund	**15.5%**	**-1.0%**	**3.9%**	**4.4%**	**3**
DJ Target 2035 Benchmark	*16.5%*	*0.1%*	*4.8%*	*5.7%*	
-DJ Target 2045 Fund	**16.6%**	**-1.0%**	**3.9%**	**4.2%**	**6**
DJ Target 2045 Benchmark	*17.0%*	*-0.2%*	*4.7%*	*5.5%*	

1. Wellington Management is the sub advisor
2. The conservative lifestyle index consists of 55% S&P 500/35% Barclays Capital Aggregate Bond Index/10% 91-Day T-bill

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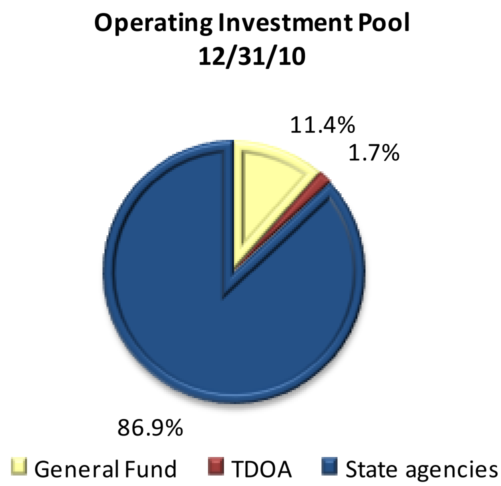
Operating Investment Pool

OVERVIEW

The Nebraska Investment Council invests the available money from the State's general fund and State boards, commissions, departments or agencies, and any other state funds not currently needed, into the Operating Investment Pool (OIP). The Department of Administrative Services calculates the average daily balance for each participant and distributes the earned income monthly on a pro-rata share basis.

From the funds available for investment in the OIP, the Council is required, pursuant to the Nebraska Capital Expansion Act, to offer each qualifying bank and capital stock financial institution in the State a time deposit open account (TDOA). Each institution is allowed up to a $1,000,000 deposit as long as they satisfy the requirements of the program. The first $250,000 of the deposit is insured either by the FDIC or the FSLIC. The statute requires the pledging of collateral for deposits greater than $250,000, with a minimum pledge of 102% of the amount deposited. However, when publicly traded securities are used for collateral, the Council requires 110% for adequate coverage due to fluctuating market values throughout the month. The Nebraska statute also allows institutions to pledge letters of credit. This type of collateral does not have a fluctuating value so when letters of credit are used, 102% is the coverage required by the Council.



2010 HIGHLIGHTS

On August 30, 2010 a second portfolio manager joined the Nebraska Investment Council to help Gayle Wrasse, the portfolio manager, oversee the Operating Investment Pool. On December 21, 2010 Gayle retired from the Nebraska Investment Council after 42 years of dedicated service.

TRANSACTION SUMMARY

	Beginning Balance	Net Contributions	Investment Results	Closing Balance
	(millions of dollars)			
OIP	$1,855	-$ 108	$ 60	$1,806
Galliard	876	0	61	937
Nebraska Bank Deposit (TDOA)	56	-10	1	48
2010 Totals	**$2,787**	**-$ 118**	**$122**	**$2,791**
Less DB assets	9	- 1	0	8
2010 Totals	**$2,778**	**-$ 117**	**$122**	**$2,783**
2009 Totals	$2,832	-$ 168	$114	$2,778
2008 Totals	2,772	- 93	153	2,832
2007 Totals	2,377	223	171	2,772
2006 Totals	2,059	218	100	2,377
2005 Totals	1,860	153	47	2,059
2004 Totals[1]	1,370	447	43	1,860
2003 Totals[2]	1,455	-122	43	1,375
2002 Totals	1,726	-297	77	1,507
2001 Totals	1,652	-45	119	1,726
2000 Totals	1,477	57	118	1,652
1999 Totals	1,471	-43	49	1,477
1998 Totals	1,343	45	83	1,471
1997 Totals	1,186	81	76	1,343
1996 Totals	1,003	122	59	1,186

1. The DB cash is invested in the OIP for short-term cash flow needs as determined by the Nebraska Public Employees Retirement Systems. The beginning balance for 2004 has been adjusted by the amount of DB assets.
2. Prior to 2003, the OIP included the fixed income portion of the Health Care Endowment Fund. 2002 ending balances included these assets; however, beginning in 2003, these assets are included in the Health Care Endowment section of the Annual Report.

ASSET ALLOCATION

The portfolio is made up of high quality U.S. Treasuries, government agencies, and investment grade corporate bonds with laddered maturities extending ten years. The internally managed portion of the OIP is invested in treasuries and agencies, whereas the Galliard portion is invested in domestic corporate bonds. Money market funds are used to provide the daily cash needs of the participants. The Council established an Investment Policy Statement for the OIP that includes credit quality and diversification constraints to provide safety of principal, liquidity for the daily cash flow needs of the entities with the OIP, and return on investment.

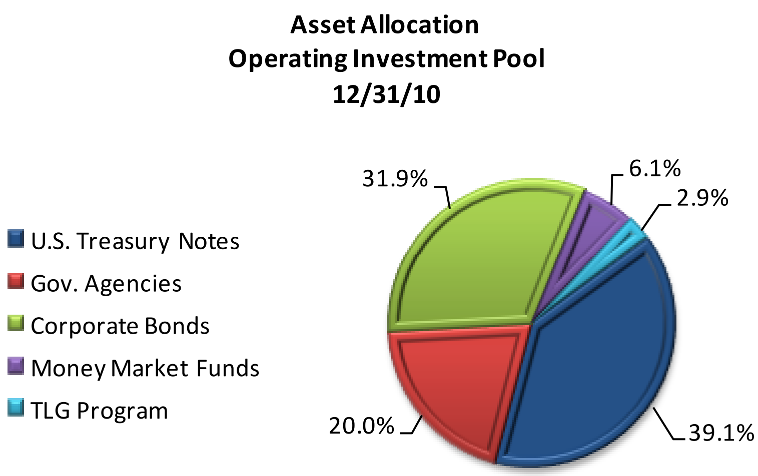
Below are the current total portfolio constraints.

- U.S Treasuries – minimum 15%
- U.S. Agencies – 50% maximum of total agencies, 15% maximum per agency issuer
- Money Market Funds – 15%, 5% to any single Money Market Fund
- Corporate Bonds – 50% maximum for the total corporate sector

There are also sub-portfolio constraints for the corporate bond portfolio.

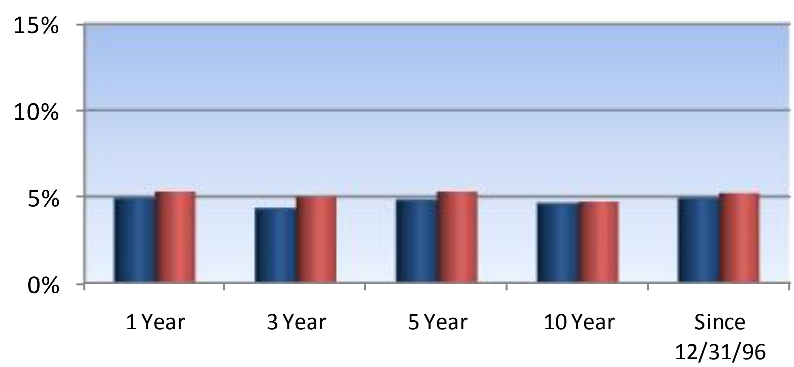
- Commercial Paper – 3% per issuer
- AAA and AA rated corporate – 40% minimum in total, 3% maximum per issuer
- A rated corporate – 60% maximum in total, 2% maximum per issuer
- Industry – 10% maximum per industry

Below is a pie chart reflecting the asset allocation of the OIP.



PERFORMANCE SUMMARY

The total portfolio rate of return was 4.9% compared to the benchmark of 5.3%. The internally managed rate of return of 3.9% underperformed the benchmark of 4.5% for the year. Galliard's rate of return of 7.1% underperformed the benchmark of 7.8%. Galliard has recently completed the transition period of realigning the portfolio to meet the guidelines established by the Council.



	1 Year	3 Year	5 Year	10 Year	Since 12/31/96
OIP	4.9%	4.3%	4.8%	4.6%	4.9%
Benchmark*	5.3%	5.0%	5.3%	4.7%	5.2%

* 90% Barclays Capital Intermediate Government/Credit Index and 10% Citigroup 30-Day CD. Prior to July 2003, the benchmark consisted of 85% Merrill Lynch 1-3 Year Government/Credit Index and 15% 90-Day T-Bill +15 basis points. Prior to October 1997, the benchmark consisted of 50% Merrill Lynch 1-3 Year Government/Credit Index and 50% 90-Day T-Bill +90 basis points.

PORTFOLIO MANAGER

The Operating Investment Pool consists of 66% internal management and 34% external management.

MANAGER PERFORMANCE
Fixed Income

	1 Year	3 Years	5 Years	10Years	Market Value as of 12/31/10 (in millions)
Operating Investment Pool (internal)	**3.9%**	**3.3%**	**4.2%**	**4.2%**	**$ 1,806**
Benchmark[1]	*4.5%*	*3.8%*	*4.5%*	*4.3%*	
Galliard Asset Management[2]	**7.1%**	**NA**	**NA**	**NA**	**937**
Barclays Capital Intermediate Corp.	*7.8%*	*NA*	*NA*	*NA*	

1. Prior to October 1997, the benchmark consisted of 50% of the ML 1-3 Year Government/Credit Index and 50% of the 90-day T-Bill + 90 bps. Prior to July 2003, the benchmark consisted of 85% of the ML 1-3 Year Government/Credit Index and 15% of the 90-Day T-Bill + 15 bps. Prior to June 2009, the benchmark consisted of 90% of the Barclays Capital Intermediate Government/Credit Index and 10% of the Citigroup 30-Day CD. Beginning June 2009, 90% Barclays Capital Intermediate Government Index and 10% Citigroup 30 Day Certificate of Deposit Index.
2. Inception date 6/30/09.

Nebraska Educational Savings Plan Trust

OVERVIEW

The Nebraska Educational Savings Plan Trust was established by the Nebraska State Legislature with a January 1, 2001, effective date. The Plan is an Internal Revenue Code Section 529 Plan providing tax-deferred growth of funds for higher education costs. There are four plans within the Nebraska Educational Savings Plan Trust – NEST Direct College Savings Plan, NEST Advisor College Savings Plan, the TD Ameritrade 529 College Savings Plan, and the State Farm College Savings Plan. The Nebraska State Treasurer serves as the Program Trustee, First National Bank of Omaha serves as the Program Manager, and all investments are approved by the Nebraska Investment Council.

NEST Direct College Savings Plan

The NEST Direct Plan puts the account owner in charge of managing the account without guidance from a financial advisor. The account can be invested in the following investment options.

Age-based Portfolios: Participant contributions are invested based on the current age of the child and the type of investment style elected. Investments are automatically changed as the child moves from one age bracket to the next.

Age of Beneficiary	Age-Based Aggressive	Age-Based Growth	Age-Based Index	Age-Based Conservative
	(Equity/Fixed Income/Real Estate/Money Market)			
Ages 0-5	100/0/0/0	80/15/5/0	60/26/5/9	40/36/5/19
Ages 6-10	80/15/5/0	60/26/5/9	40/36/5/19	20/46/5/29
Ages 11-14	60/26/5/9	40/36/5/19	20/46/5/29	0/50/0/50
Ages 15-18	40/36/5/19	20/46/5/29	0/50/0/50	0/25/0/75
Ages 19+	20/46/5/29	0/50/0/50	0/25/0/75	0/0/0/100

Note: The equity asset class includes both domestic and international equities.

Static Portfolios: These portfolios provide a static asset allocation over the life of the account.

	Equity	Fixed Income	Real Estate	Money Market
Growth	80%	15%	5%	0%
Balanced Index	45%	40%	5%	10%
Conservative	20%	46%	5%	29%

Note: The equity asset class includes both domestic and international equities.

Individual Fund Portfolios: Participants may choose from 14 individual fund portfolios for their investment. These portfolios invest in the underlying investment fund.

Overall, seven fund families with fourteen investment funds are utilized within the program, either offered as an individual portfolio and/or used in the static and age-based portfolios. In addition to any manager fees within the funds selected, the Plan imposes a 0.26% annual program management fee, and a 0.03% state administration fee to cover administrative costs of overseeing, distributing and marketing the Plan. For complete detailed information on the program and additional fees, refer to the Plan’s Program Disclosure Statement and Participation Agreement.

NEST Advisor College Savings Plan
The NEST Advisor Plan is offered to individuals who are using the expertise and guidance of a financial advisor. The financial advisor will work with the Program Manager to open and transfer money to the participant account.

Age-based Portfolios: Participant contributions are invested based on the current age of the child and the type of investment style elected. Investments are automatically changed as the child moves from one age bracket to the next.

Age of Beneficiary	Age-Based Aggressive	Age-Based Growth	Age-Based Index	Age-Based Conservative
	(Equity/Fixed Income/Real Estate/Money Market)			
Ages 0-5	100/0/0/0	80/15/5/0	60/26/5/9	40/36/5/19
Ages 6-10	80/15/5/0	60/26/5/9	40/36/5/19	20/46/5/29
Ages 11-14	60/26/5/9	40/36/5/19	20/46/5/29	0/50/0/50
Ages 15-18	40/36/5/19	20/46/5/29	0/50/0/50	0/25/0/75
Ages 19+	20/46/5/29	0/50/0/50	0/25/0/75	0/0/0/100

Note: The equity asset class includes both domestic and international equities.

Static Portfolios: These portfolios provide a static asset allocation over the life of the account.

	Equity	Fixed Income	Real Estate	Money Market
Growth	80%	15%	5%	0%
Balanced Index	45%	40%	5%	10%
Conservative	20%	46%	5%	29%

Note: The equity asset class includes both domestic and international equities.

Individual Fund Portfolios: Participants may choose from 14 individual fund portfolios for their investment. These portfolios invest in the underlying investment fund.

Participants must elect which fee structure they wish to purchase: Fee Structure A or Fee Structure C. Annual fees and initial sales charges vary depending on which fee structure the participant chooses. A table outlining some of the Plan's fees is below. For complete detailed information on the program and additional fees, refer to the Plan's Program Disclosure Statement and Participation Agreement.

	Initial Sales Charge	Contingent Deferred Sales Charge (CDSC)	Servicing Fee	Annual Program Management Fee	State Admin. Charge
Fee Structure A	4.75%	0.00%	0.25%	0.26%	0.03%
Fee Structure C	0.00%	1.00%	1.00%	0.26%	0.03%

Investment fund expenses will also apply.

TD Ameritrade 529 College Savings Plan
Participant accounts can be set up directly with TD Ameritrade and participants are offered similar investment options as those offered to participants with the NEST direct and advisor accounts.

Age-based Portfolios: Participant contributions are invested based on the current age of the child and the type of investment style elected. Investments are automatically changed as the child moves from one age bracket to the next.

Age of Beneficiary	Age-Based Aggressive	Age-Based Growth	Age-Based Index	Age-Based Conservative
	(Equity/Fixed Income/Real Estate/Money Market)			
Ages 0-5	100/0/0/0	80/15/5/0	60/26/5/9	40/36/5/19
Ages 6-10	80/15/5/0	60/26/5/9	40/36/5/19	20/46/5/29
Ages 11-14	60/26/5/9	40/36/5/19	20/46/5/29	0/50/0/50
Ages 15-18	40/36/5/19	20/46/5/29	0/50/0/50	0/25/0/75
Ages 19+	20/46/5/29	0/50/0/50	0/25/0/75	0/0/0/100

Note: The equity asset class includes both domestic and international equities.

Static Portfolios: These portfolios provide a static asset allocation over the life of the account.

	Equity	Fixed Income	Real Estate	Money Market
Growth	80%	15%	5%	0%
Balanced Index	45%	40%	5%	10%
Conservative	20%	46%	5%	29%

Note: The equity asset class includes both domestic and international equities.

Individual Fund Portfolios: Participants may choose from 15 individual fund portfolios for their investment. These portfolios invest in the underlying investment fund.

Each account is assessed a 0.26% program management fee, a 0.19% TD Ameritrade distribution fee, and a 0.03% State administration fee to cover administrative costs of overseeing, distributing, and marketing the Plan. Applicable investment fund fees will vary by investment choice. For complete detailed information on the program and additional fees, refer to the Plan's Program Disclosure Statement and Participation Agreement.

State Farm College Savings Plan
State Farm agents market a series of the Nebraska Educational Savings Plan Trust under the State Farm name. Participants may choose from the following investment options, of which the majority are Oppenheimer mutual funds managed by OFI Private Investments Inc.

Static Portfolios: These portfolios provide a static asset allocation over the life of the account. The equity allocation includes domestic and international equities.

- Growth 529 Portfolio (100% Equity)
- Moderate Growth 529 Portfolio (80% Equity/20% Fixed Income)
- Balanced 529 Portfolio (60% Equity/40% Fixed Income)
- Money Market 529 Portfolio (100% Money Market)

Enrollment-based Portfolios: Investments in these portfolios are based on the anticipated time to college enrollment of the beneficiary. Participant accounts are automatically transferred to the appropriate portfolios as the beneficiary ages to the next tier.

	Equity[1]	Fixed Income	Money Market
13+ Years to College Portfolio	100%	0%	0%
7-12 Years to College Portfolio	80%	20%	0%
4-6 Years to College Portfolio	60%	40%	0%
1-3 Years to College Portfolio	40%	50%	10%
College Now Portfolio	10%	75%	15%

1. Equity allocation includes domestic and international except for the college now portfolio which is domestic equity only.

At this time, State Farm does not offer an investment option consisting of individual fund portfolios. State Farm College Savings Plan participants must elect which class of portfolio shares they wish to purchase: Class A or Class B. However, only account owners who owned Class B shares prior to November 3, 2008 are eligible to purchase Class B shares. Annual fees and initial sales charges vary depending on which class of shares the participant chooses. The fees are illustrated in the following table. Each account will also bear its pro-rata share of the fees and expenses charged within the Oppenheimer funds that make up each 529 portfolio.

	Annual Fee[1]	Initial Sales Charge[2]	Contingent Deferred Sales Charges[3,4]	
Class A	0.25%	5.50%	0.0%	Held < 18 months
		0.00%	1.0%	Held < 18 months
Class B	1.00%	0.00%	5.0%	Redeemed year 1
			4.0%	Redeemed year 2
			3.0%	Redeemed year 3 or 4
			2.0%	Redeemed year 5
			1.0%	Redeemed year 6
			0.0%	Redeemed year 7 or after

1. The annual fee on Class B shares is 1.10% for the first eight years and 0.35% thereafter.
2. The initial sales charge varies for Class A shares based on the portfolio category of the purchase and the amount of the purchase. The charge listed for Class A shares is based on a purchase under $25,000 of Class A shares in a Category 1 portfolio. There are also other situations in which the sale charge may be waived. Please see the State Farm enrollment handbook for further details.
3. A deferred sales charge of 1.0% is imposed for Class A shares if the initial purchase was part of an initial investment over $1,000,000 or more made on a single day with the initial sales charge waived. Otherwise, no deferred sales charge is imposed.
4. Deferred sales charges for Class B shares vary depending on the original purchase and what year the redemption occurs. Please see the State Farm enrollment handbook for further details.

2010 HIGHLIGHTS

In July 2009, the Treasurer's office submitted a Request for Proposal (RFP) for Investment and Administrative Services for the College Savings Plan of Nebraska.

In early 2010, the Nebraska State Treasurer and the Nebraska Investment Council entered into a seven-year agreement with First National Bank of Omaha to become the Program Manager for the Nebraska Educational Savings Plan Trust, replacing Union Bank & Trust Company. With this change, the program management fee was reduced by more than half and the annual account owner fee was eliminated. There were also some changes to the investment line-up of each plan which included the addition of new fund families, an index only investment option, and a simplified investment line-up.

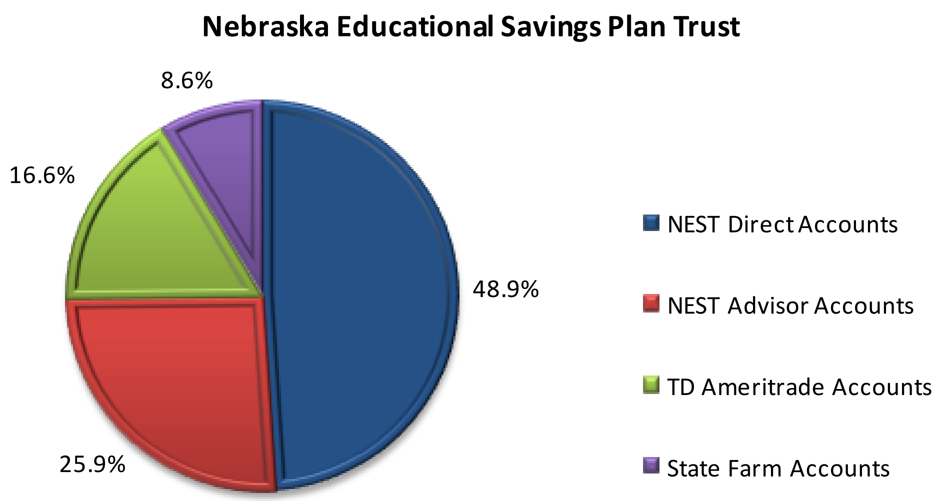
TRANSACTION SUMMARY

	Beginning Balance	Net Contributions	Investment Results	Closing Balance
	(millions of dollars)			
College Savings Plan of Nebraska				
Union Bank	$ 1,545	-$ 1,714	$ 169	$ 0
TD Ameritrade	325	-362	37	0
NEST				
Direct	0	1,159	12	1,171
Advisor	0	613	6	619
TD Ameritrade	0	393	4	397
State Farm College Savings Plan				
OFI Private Investments	165	20	20	205
2010 Totals	**$ 2,035**	**$ 109**	**$ 249**	**$ 2,393**
2009 Totals	$ 1,595	$ 102	$ 338	$ 2,035
2008 Totals	2,018	183	- 606	1,595
2007 Totals	1,648	256	115	2,018
2006 Totals	1,256	223	169	1,648
2005 Totals	955	220	81	1,256
2004 Totals	613	280	62	955
2003 Totals[1]	271	260	83	613
2002 Totals	55	235	-19	271

1. Revised to include the contributions postmarked on or before 12/31/03 but received after that date. Ending value changed from $603.3 million to $613.4 million.

ASSET ALLOCATION

Within the Nebraska Educational Savings Plan Trust, each participant elects the program series in which they wish to invest. The following is a graphical representation of where participants have chosen to invest their assets as of December 31, 2010.



Within each program series, participants choose their own investment strategy. Please refer to the manager performance section of each series for the return on the portfolios.

PERFORMANCE SUMMARY

Performance for the NEST Direct College Savings Plan, the NEST Advisor College Saving Plan, and the TD Ameritrade 529 College Savings Plan is based on manager performance measurement.

PORTFOLIO MANAGERS

Twenty investment funds are utilized within the plans, either offered as an individual fund portfolio and/or used in the age-based or static portfolios. Each plan has a different fund line-up available. Some of the fund families represented in the plans includes American Century, Dreyfus, Fidelity Investments, Goldman Sachs, PIMCO, T.Rowe Price and Vanguard.

MANAGER PERFORMANCE

As of December 20, 2010, First National Bank of Omaha is the Program Manager of the Plans. Therefore, we are unable to show a full year's performance in the tables below. However, market value for each of the funds is included below. For the age-based and static investment options, market values have been consolidated to include the NEST Direct, NEST Advisor, and TD Ameritrade accounts.

	1 Year	*3 Years*	*Market Value 12/31/10 (in millions)*
Age-based Investment Options			
-Aggressive 0-5	NA	NA	$ 86
-Aggressive 6-10	NA	NA	190
-Aggressive 11-14	NA	NA	146
-Aggressive 15-18	NA	NA	116
-Aggressive 19+	NA	NA	37
- Growth 0-5	NA	NA	56
- Growth 6-10	NA	NA	151
- Growth 11-14	NA	NA	125
- Growth 15-18	NA	NA	112
- Growth 19+	NA	NA	36
-Index 0-5	NA	NA	12
-Index 6-10	NA	NA	30
-Index 11-14	NA	NA	29
-Index 15-18	NA	NA	32
-Index 19+	NA	NA	14
-Conservative 0-5	NA	NA	2
-Conservative 6-10	NA	NA	6
-Conservative 11-14	NA	NA	6
-Conservative 15-18	NA	NA	11
-Conservative 19+	NA	NA	6
Static Investment Options			
-Growth	NA	NA	302
- Balanced Index	NA	NA	116
- Conservative	NA	NA	47

	1 Year	*3 Years*	*Market Value 12/31/10 (in millions)*
Individual Fund Investment Options			
NEST Direct			
- Goldman Sachs Prime Money Market	NA	NA	$ 30
- Fidelity Advisor Small Cap	NA	NA	19
- PIMCO Total Return	NA	NA	44
- State Street MSCI ACWI ex-U.S. Index	NA	NA	56
- State Street S&P 500 Index	NA	NA	19
- T.Rowe Price Large Cap Growth	NA	NA	21
- Tributary Core Equity	NA	NA	30
- Tributary Small Company	NA	NA	19
- Vanguard Extended Market Index	NA	NA	35
- Vanguard Inflation-Protected Securities	NA	NA	1
- Vanguard REIT Index	NA	NA	9
- Vanguard Short-term Bond Index	NA	NA	16
- Vanguard Total Bond Market Index	NA	NA	9
- Vanguard Total Stock Market Index	NA	NA	26
NEST Advisor			
- American Century Inflation-Adjusted Bond	NA	NA	$ 0
- Dreyfus Bond Market Index Basic	NA	NA	3
- Goldman Sachs Prime Money Market	NA	NA	13
- Federated Total Return Bond	NA	NA	0
- Fidelity Advisor Small Cap	NA	NA	3
- Fidelity Spartan Extended Market Index	NA	NA	6
- PIMCO Total Return	NA	NA	14
- State Street MSCI ACWI ex-U.S. Index	NA	NA	8
- State Street S&P 500 Index	NA	NA	2
- T.Rowe Price Large Cap Growth	NA	NA	5
- Tributary Core Equity	NA	NA	6
- Tributary Small Company	NA	NA	2
- Vanguard REIT ETF	NA	NA	1
- Vanguard Total Stock Market ETF	NA	NA	4
TD Ameritrade			
- American Century Inflation-Adjusted Bond	NA	NA	$ 0
- Dreyfus Bond Market Index Basic	NA	NA	7
- Goldman Sachs Prime Money Market	NA	NA	14
- Federated Total Return Bond	NA	NA	0
- Fidelity Advisor Small Cap	NA	NA	8
- Fidelity Spartan Extended Market Index	NA	NA	13
- PIMCO Total Return	NA	NA	15
- T.Rowe Price Large Cap Growth	NA	NA	8
- Tributary Core Equity	NA	NA	13
- Tributary Small Company	NA	NA	8
- Vanguard Institutional Index	NA	NA	6
- Vanguard REIT	NA	NA	4
- Vanguard Short-term Bond Index	NA	NA	7
- Vanguard Total International Stock Index	NA	NA	22
- Vanguard Total Stock Market	NA	NA	11

Nebraska Educational Savings Plan Trust
State Farm College Savings Plan

PERFORMANCE SUMMARY

OFI Private Investments, a subsidiary of Oppenheimer Funds Inc., is the investment manager for the State Farm College Savings Plan.

PORTFOLIO MANAGERS

The Plan's investment options include four fixed-allocation portfolios that range from conservative to growth and five enrollment-based portfolios. These portfolios each invest in several underlying funds.

MANAGER PERFORMANCE

	1 Year[1]	*3 Years[1]*	*Market Value 12/31/10 (in millions)*
Fixed-allocation Portfolios			
-Growth Allocation 529 Portfolio	**13.1%**	**NA**	**$ 28**
Growth Allocation Policy	*16.0%*	*NA*	
-Moderate Growth Allocation 529 Portfolio	**13.9%**	**NA**	**17**
Moderate Growth Allocation Policy	*14.4%*	*NA*	
-Balanced Allocation 529 Portfolio	**11.7%**	**NA**	**8**
Balanced Allocation Policy	*12.6%*	*NA*	
-Money Market 529 Portfolio	**0.0%**	**NA**	**4**
Money Market Policy	*0.1%*	*NA*	
Enrollment-based Portfolios			
-13 + Years to College 529 Portfolio	**12.9%**	**NA**	**19**
13+ Policy	*16.0%*	*NA*	
-7-12 Years to College 529 Portfolio	**13.8%**	**NA**	**60**
7-12 Policy	*14.4%*	*NA*	
- 4-6 Years to College 529 Portfolio	**11.7%**	**NA**	**30**
4-6 Policy	*12.6%*	*NA*	
-1-3 Years to College 529 Portfolio	**7.3%**	**NA**	**25**
1-3 Policy	*9.1%*	*NA*	
-College Now 529 Portfolio	**4.0%**	**NA**	**14**
College Now Policy	*5.3%*	*NA*	

1. Returns shown are for Class A shares and net of mutual fund fees. Sales charges and the annual fee the Plan imposes (0.25% Class A and 1.00% Class B) have not been deducted.

General Endowment Funds

OVERVIEW

Endowment funds are used to provide a perpetual source of funding for the activities of the entities they support. Generally there are two investment objectives – providing some funds for the current year's operations and increasing the portfolio to support future needs. The financial management of an endowment fund consists of a contribution strategy, a distribution strategy, and an investment strategy. Although these strategies are interrelated, the Nebraska Investment Council determines only the investment strategy for these endowments. The assets of the endowments described in this section are commingled to achieve administrative efficiencies and cost savings from economies of scale. The investment strategy is described later in this section.

The basic purpose of each endowment is described below.

The Permanent School Fund

The endowment receives proceeds from the sales of school land held in trust for public education, payments for easements and right-of-way over the lands, and royalties and severance taxes paid on oil, gas, and minerals produced from these lands. The net income earned on this fund is distributed annually to the K-12 public schools.

The Nebraska Early Childhood Education Endowment Fund

The endowment provides funding for grants to schools and community partners to provide programs serving at-risk children birth to age three.

The Nebraska Veterans' Aid Fund

The endowment provides emergency financial assistance to eligible veterans and dependents.

The Cultural Preservation Endowment Fund

The endowment supports the activities of the Nebraska Arts Council and the Nebraska Humanities Council. Distributions from this fund are conditioned on matching contributions from other sources.

The Agricultural Endowment Fund

The endowment receives proceeds from sales of land granted by the federal government. Investment income is distributed to the Institute of Agriculture and Natural Resources.

The Permanent Endowment Fund

The endowment receives proceeds from the sales of land granted by the federal government. Investment income is distributed to the University of Nebraska. This fund is also called the Permanent University Endowment Fund.

The Normal School Endowment

The endowment receives proceeds from sales of land granted by the federal government. Investment income is distributed for the benefit of the state colleges. This fund is also called the State College Endowment Fund.

The Nebraska Environmental Endowment Fund

The endowment is funded by the state lottery program and is part of the Nebraska Environmental Trust. The Trust provides grants for the purposes of environmental conservation in Nebraska.

The Bessey Memorial Fund

The endowment provides aid to widows of University of Nebraska professors.

2010 HIGHLIGHTS

Although the continuation of the recovery in the public equities and fixed income portfolios provided this year's main theme, the Council did continue making progress in the real estate portfolio of the General Endowments. This progress came in the form of two separate capital commitments of $500,000 to the UBS Trumbull Property Fund, a core real estate investment. Later in the year, the Council committed $6.5 million to Cornerstone Patriot Fund and $6.5 million to UBS Trumbull Property Fund. The General Endowments' real estate program is shared with the Health Care Endowment for investment purposes.

Additionally, the Council expanded Loomis Sayles' fixed income mandate from a conservative high yield approach to a full discretion core plus one.

Lastly, the Council moved the passive benchmark for the non-U.S. equities from MSCI All Country World ex-U.S. Index to MSCI All Country World ex-U.S. Investible Market Index. This action was taken to provide the Council with a more expansive proxy of the non-U.S equity markets.

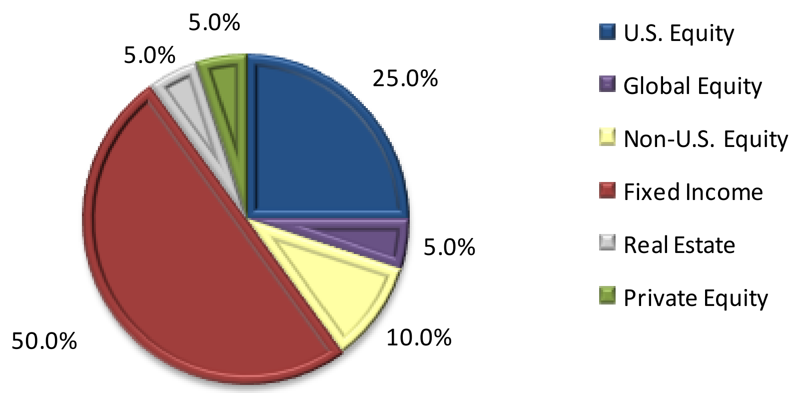
TRANSACTION SUMMARY[1]

	Beginning Balance	Net Contributions	Investment Results	Closing Balance
	(millions of dollars)			
Permanent Endowment Fund	$413.97	-$2.79	$49.00	$460.18
Early Childhood Education Endowment Fund	37.11	-1.41	4.35	40.05
Nebraska Veterans' Aid Fund	32.75	-1.24	3.84	35.36
Cultural Preservation Endowment Fund	6.50	-0.43	0.76	6.83
Agricultural Endowment Fund	1.97	-0.07	0.23	2.13
Permanent University Endowment Fund	0.90	-0.03	0.11	0.97
Normal School Endowment Fund	0.21	0.00	0.02	0.23
Nebraska Environmental Endowment Fund	0.90	0.00	0.11	1.01
Bessey Memorial Fund	0.02	0.00	0.00	0.02
2010 Totals	**$494.33**	**- $5.98**	**$ 58.43**	**$546.78**
2009 Totals[2]	$415.94	- $10.37	$ 88.76	$494.33
2008 Totals	520.9	20.1	-133.9	407.1
2007 Totals	478.0	4.6	38.3	520.9
2006 Totals	354.7	82.4	40.9	478.0
2005 Totals	343.0	- 8.8	20.6	354.7
2004 Totals	324.1	-11.7	30.6	343.0
2003 Totals	282.5	-9.5	51.2	324.1
2002 Totals	312.6	-9.9	-20.2	282.5
2001 Totals	329.9	-12.3	-5.1	312.6
2000 Totals	333.6	-5.5	1.8	329.9
1999 Totals	304.7	-3.9	32.7	333.6
1998 Totals	253.6	2.6	48.5	304.7
1997 Totals	212.8	-5.2	46.0	253.6

1. Reported collectively because it represents nine endowments with identical investment strategies.
2. Due to a restatement of December 2008 assets, the beginning balances have changed since the 2008 annual report. The fiscal year-end of the plan is June 30, 2009.

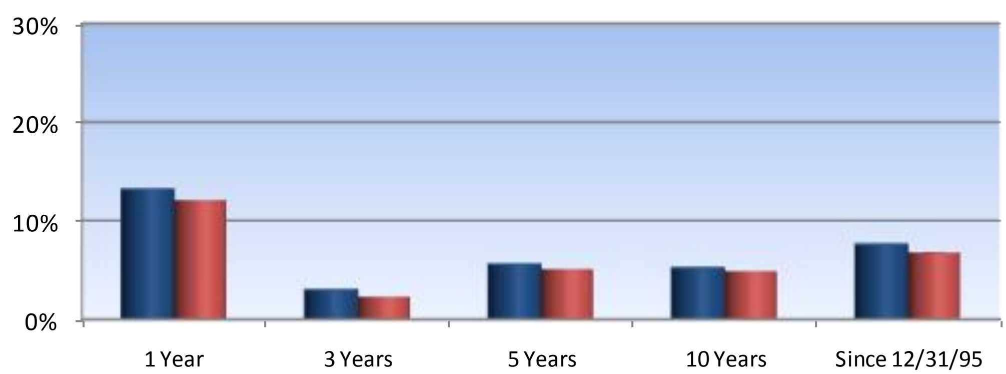
ASSET ALLOCATION

For all of these Funds the Council has selected an investment strategy consisting of U.S. equity, global equity, non-U.S. equity, fixed income, real estate, and private equity. The majority of the assets designated for real estate and private equity investment are currently invested in the U.S. equity portfolio.



PERFORMANCE SUMMARY

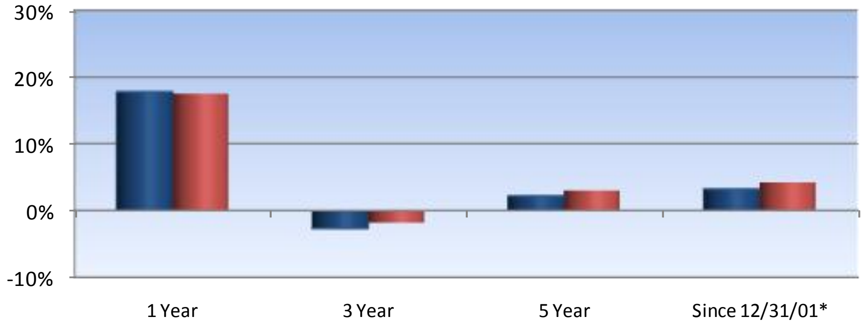
The total portfolio's rate of return for the year was 13.2% while its benchmark return was 12.1%. The U.S. equity portfolio outperformed its benchmark, 17.8% versus 17.5%, respectively. The rate of return for the global equities portfolio was 12.0%, less than the 12.7% return of its benchmark. The non-U.S. equity portfolio returned 10.2% and its benchmark rate was 11.2%. The fixed income portfolio outperformed its benchmark, 8.8% versus 7.2%, respectively.



	1 Year	3 Years	5 Years	10 Years	Since 12/31/95
General Endowments	13.2%	3.0%	5.6%	5.2%	7.6%
Benchmark*	12.1%	2.3%	5.1%	4.9%	6.8%

* Effective September 2005, a composite of 37.625% DJ Wilshire 5000 Index, 10.125% MSCI ACWI ex-U.S., 2.25% MSCI ACWI, and 50% of the fixed income component benchmark.

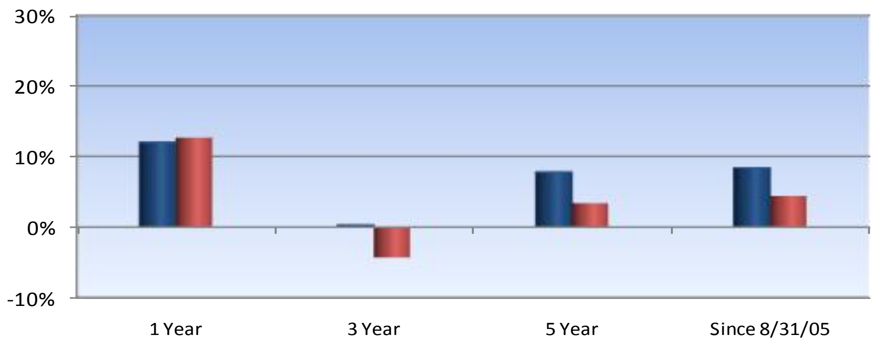
U.S. Equity Composite



	1 Year	3 Year	5 Year	Since 12/31/01*
U.S. Equity Composite	17.8%	-2.7%	2.2%	3.2%
DJ U.S. Total Stock Market Index	17.5%	-1.8%	3.0%	4.2%

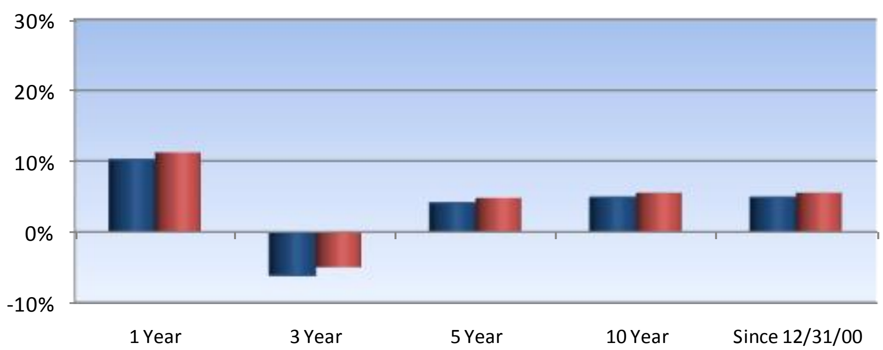
* Inception date reflects the start date of the current U.S. equity structure.

Global Equity Composite



	1 Year	3 Year	5 Year	Since 8/31/05
Global Equity Composite	12.0%	0.3%	7.8%	8.4%
MSCI All-Country World Index	12.7%	-4.3%	3.4%	4.4%

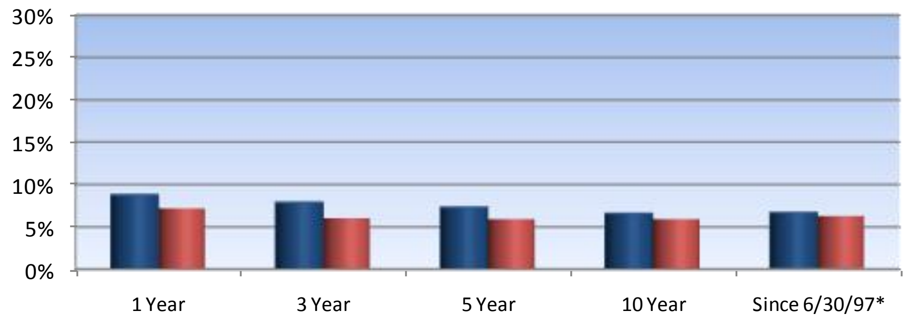
Non-U.S. Equity Composite



	1 Year	3 Year	5 Year	10 Year	Since 12/31/00
Non-U.S. Equity Composite	10.2%	-6.1%	4.1%	4.9%	4.9%
Benchmark*	11.2%	-5.0%	4.8%	5.5%	5.5%

* Blended benchmark: 12/31/00 to 3/31/04 MSCI EAFE; 3/31/04 to 5/31/04 MSCI EAFE + Canada; 5/31/04 to present MSCI ACWI ex-U.S.

Fixed Income Composite



	1 Year	3 Year	5 Year	10 Year	Since 6/30/97*
Fixed Income	8.8%	7.9%	7.3%	6.6%	6.7%
Benchmark**	7.2%	6.0%	5.9%	5.9%	6.3%

* Inception date reflects the start date of the current U.S. fixed income structure
** Blended benchmark: 6/30/97 to 3/31/05 Barclays Capital Aggregate Bond Index; 3/31/05 to present Barclays Capital Universal Bond Index

PORTFOLIO MANAGERS

The performance of all managers is monitored quarterly. All managers are subject to thorough review at least annually. Hewitt Ennis Knupp, the investment consultant to the Council, assists in the performance analysis and review process. The market value for each manager and their fund is listed in the following tables.

MANAGER PERFORMANCE

U.S. Equity

	1 Year	3 Years	5 Years	10 Years	Market Value 12/31/10 (in millions)
Barclays Russell 1000 Index	**16.1%**	**-2.4%**	**NA**	**NA**	**$ 176**
Russell 1000 Index	*16.1%*	*-2.4%*	*NA*	*NA*	
Dimensional Fund Advisors, Inc.	**30.9%**	**3.4%**	**3.7%**	**NA**	**13**
Benchmark[1]	*25.0%*	*4.2%*	*4.9%*	*NA*	
Turner Investments	**32.0%**	**0.4%**	**NA**	**NA**	**12**
Russell 2000 Growth Index	*29.1%*	*2.2%*	*NA*	*NA*	

1. The DJ U.S. Small-Cap Value Total Stock Market Index. Prior to August 2006, the Wilshire Small-CapValue Style Index.

MANAGER PERFORMANCE

Global Equity

	1 Year	3 Years	5 Years	10 Year	Market Value 12/31/10 (in millions)
Acadian Asset Management, Inc.	**16.2%**	**-5.7%**	**4.8%**	**NA**	**$ 7**
MSCI All-Country World Index	*12.7%*	*-4.3%*	*3.4%*	*NA*	
Ironbridge	**14.6%**	**NA**	**NA**	**NA**	**8**
MSCI All-Country World Index	*12.7%*	*NA*	*NA*	*NA*	
MFS Institutional Advisors, Inc.	**12.9%**	**0.0%**	**6.5%**	**NA**	**7**
MSCI All-Country World Index	*12.7%*	*-4.3%*	*3.4%*	*NA*	
Mondrian	**7.8%**	**NA**	**NA**	**NA**	**7**
MSCI All-Country World Index	*12.7%*	*NA*	*NA*	*NA*	

MANAGER PERFORMANCE
Non-U.S. Equity

	1 Year	3 Years	5 Years	10 Year	Market Value 12/31/10 (in millions)
State Street Global Advisors	**8.5%**	**-7.4%**	**2.3%**	**3.7%**	**$ 40**
MSCI EAFE + Canada Index	*8.8%*	*-6.4%*	*3.0%*	*4.0%*	
Baillie Gifford Overseas Ltd.	**19.5%**	**1.7%**	**16.1%**	**NA**	**5**
MSCI EMF Index	*18.9%*	*-0.3%*	*12.8%*	*NA*	

MANAGER PERFORMANCE
Fixed Income

	1 Year	3 Years	5 Years	10 Year	Market Value 12/31/10 (in millions)
BlackRock Aggregate Bond Index	**6.7%**	**6.0%**	**NA**	**NA**	**$ 109**
Barclays Capital Aggregate Bond Index	*6.5%*	*5.9%*	*NA*	*NA*	
Loomis Sayles	**14.4%**	**7.9%**	**NA**	**NA**	**16**
Benchmark[1]	*8.8%*	*8.3%*	*NA*	*NA*	
PIMCO	**9.2%**	**8.8%**	**8.0%**	**7.0%**	**131**
Benchmark[2]	*7.2%*	*6.0%*	*5.9%*	*5.9%*	

1. Prior to July 31, 2010 the benchmark was the Barclays Capital High Yield Index. Beginning August 1, 2010, the benchmark is the Barclays Capital U.S. Universal Bond Index.
2. Blended benchmark: 6/30/97 to 3/31/05 Barclays Capital Aggregate Bond Index; 3/31/05 to present Barclays Capital U.S. Universal Bond Index.

MANAGER PERFORMANCE
Real Estate

The table below represents the three investments in open end core funds for the private real estate portfolio. UBS and Prudential were hired in 2009 and Cornerstone was recently added during 2010. Time-weighted rates of return through 12/31/10 for the two initial investments and are shown separately below.

	1 Year	3 Years	5 Years	Market Value as of 12/31/10 (in millions)
Cornerstone Patriot Fund[1]	**NA**	**NA**	**NA**	**$ 4**
NCREIF ODCE Index	*NA*	*NA*	*NA*	
UBS Trumbull Property Fund	**NA**	**NA**	**NA**	**1**
NCREIF ODCE Index	*NA*	*NA*	*NA*	
Prudential (PRISA)	**17.0%**	**NA**	**NA**	**0**
NCREIF ODCE Index	*15.3%*	*NA*	*NA*	

1. Inception date 10/1/10.

In addition to the core open end funds, investments in two closed end funds have been made. Private real estate reports are available on a quarter lag and figures are shown below as of 9/30/10. The detail encompasses our total private real estate commitments for both the General Endowments and the Health Care Endowment as those assets are commingled for investment purposes.

Portfolio Detail – GE & Health Care Endowments	Direct as of 9/30/10
Number of Investments	4
Total Commitments	$31,500,000
Total Paid-In	$12,009,196
IRR since inception	-6.89%
Partnerships	Metropolitan MREP VI
	Metropolitan MREP International III
	Prudential Property Investment
	UBS Trumbull Property Fund

Performance shown above is measured as an internal rate of return not a time-weighted rate of return. The real estate portfolio is still in the investment stage for many of its closed end funds and will continue to invest in closed end funds over time. Therefore, time-weighted rates of return during the initial stages of investment in the closed end funds is not meaningful since a fairly large amount of capital has yet to be called for those funds.

MANAGER PERFORMANCE

Private Equity

The Nebraska Investment Council began allocating to private equity with the initial commitment to a fund of funds. Private equity reports are on a quarter lag and are shown as of 9/30/10. The detail below includes our private equity commitments for both the General Endowments and the Health Care Endowment as those assets are commingled for investment purposes.

Portfolio Detail – GE & Health Care Endowment	Fund of Funds as of 9/30/10
Number of Investments	1
Total Commitments	$45,000,000
Total Paid-In	$ 3,825,000
IRR since inception	-21.1%
Partnerships	Abbott Capital Private Equity Fund VI, L.P.

Performance shown is measured as an internal rate of return not a time-weighted rate of return. At this point, time-weighted rates of return are not meaningful since a fairly large amount of capital has yet to be called and the portfolio is still in its early stages of development.

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Health Care Endowment Fund

OVERVIEW

The Health Care Endowment Fund is comprised of two distinct state trust funds. These two are the Nebraska Tobacco Settlement Trust Fund and the Nebraska Medicaid Intergovernmental Trust Fund (IGT). Although their external contributions are different, the investments are the same and the spending policy is similar. The Nebraska Investment Council's responsibility is managing the investments only.

2010 HIGHLIGHTS

Although the continuation of the recovery in the public equities and fixed income portfolios provided this year's main theme, the Council did continue making progress in the real estate portfolio of the Health Care Endowment Fund. This progress came in the form of two separate capital commitments of $500,000 to the UBS Trumbull Property Fund, a core real estate investment. Later in the year, the Council committed $6.5 million to Cornerstone Patriot Fund and $6.5 million to UBS Trumbull Property Fund. The Health Care Endowment's real estate program is shared with the General Endowments for investment purposes.

Additionally, the Council expanded Loomis Sayles' fixed income mandate from a conservative high yield approach to a full discretion core plus one.

Lastly, the Council moved the passive benchmark for the non-U.S. equities from MSCI All Country World ex-U.S. Index to MSCI All Country World ex-U.S. Investible Market Index. This action was taken to provide the Council with a more expansive proxy of the non-U.S. equity markets.

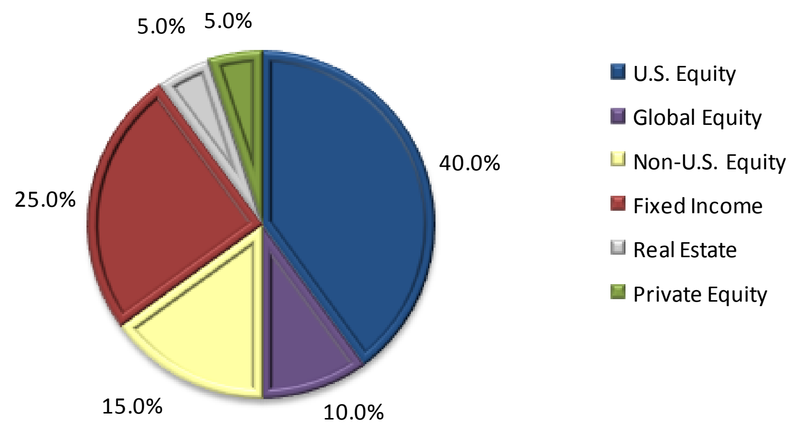
TRANSACTION SUMMARY

	Beginning Balance	Net Contributions	Investment Results	Closing Balance
	(millions of dollars)			
2010 Totals	**$317**	**- $ 17**	**$ 38**	**$339**
2009 Totals[2]	$267	- $ 10	$ 60	$317
2008 Totals	391	69	-178	283
2007 Totals	364	- 4	31	391
2006 Totals	313	4	47	364
2005 Totals	309	-17	21	313
2004 Totals	263	18	28	309
2003 Totals[1]`	177	37	49	263
2002 Totals	180	15	-19	176

1. The fixed income beginning balance has been adjusted from cash basis to accrual basis.
2. Due to a restatement of December 2008 assets, the beginning balances have changed since the 2008 annual report. The fiscal year-end of the plan is June 30, 2009.

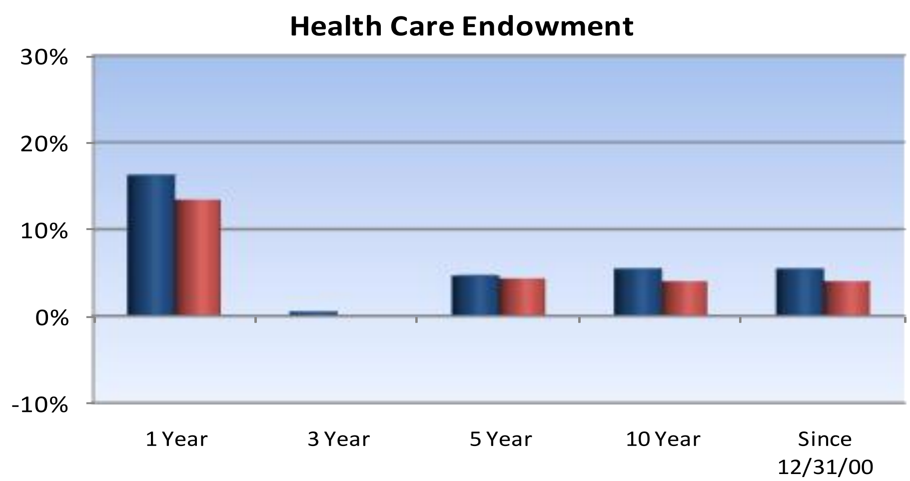
ASSET ALLOCATION

There are no specific statutory or contractual restrictions on the investment of the Health Care Endowment Fund. For this Fund, the Council has selected an investment strategy consisting of 40.0% U.S. equity, 10.0% global equity, 15.0% non-U.S. equity, 25% fixed income, 5% real estate, and 5.0% private equity. The majority of the assets designated for real estate and private equity investment are currently invested in the U.S. equity portfolio.



PERFORMANCE SUMMARY

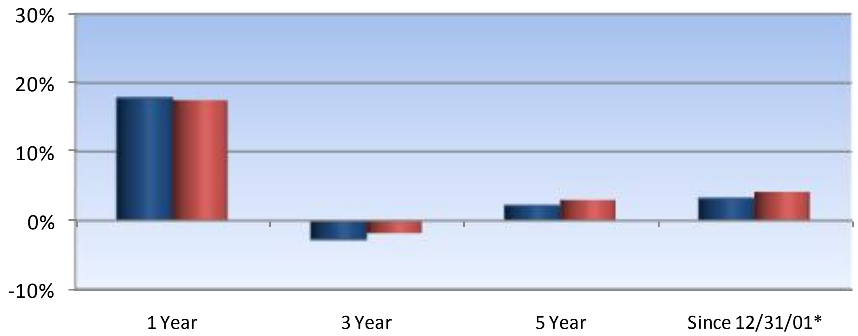
The portfolio's total rate of return for the year was 16.2% which was higher than its benchmark return of 13.4%. The U.S. equity portfolio outperformed its benchmark, 17.8% versus 17.5%, respectively. The rate of return for the global equities portfolio was 12.0%, less than the 12.7% return of its benchmark. The non-U.S. equity portfolio returned 10.2% and its benchmark rate was 11.2%. The fixed income portfolio returned less than its benchmark, 2.8% versus 4.5%, respectively.



	1 Year	3 Year	5 Year	10 Year	Since 12/31/00
Health Care	16.2%	0.4%	4.6%	5.4%	5.4%
Benchmark*	13.4%	-0.1%	4.3%	4.0%	4.0%

* Effective September 2005, a composite of 55.75% DJ U.S. Total Stock Market Index, 15,75% MSCI ACWI ex-U.S., 3.5% MSCI ACWI, 22.5% Barclays Capital Intermediate Government/Credit Index, 2.5% Citigroup 30-Day CD.

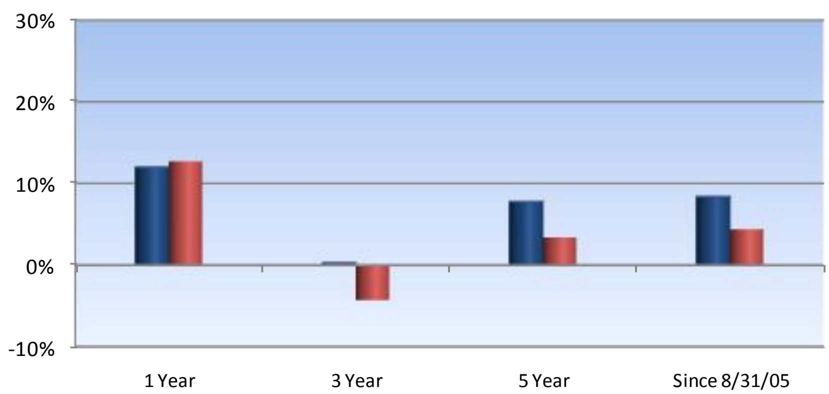
U.S. Equity Composite



	1 Year	3 Year	5 Year	Since 12/31/01*
U.S. Equity Composite	17.8%	-2.7%	2.2%	3.2%
DJ U.S. Total Stock Market Index	17.5%	-1.8%	3.0%	4.2%

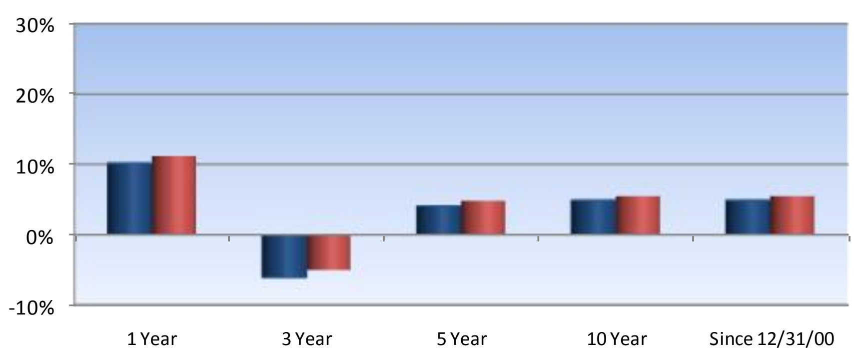
*Date reflects the start date of the current U.S. equity structure.

Global Equity Composite



	1 Year	3 Year	5 Year	Since 8/31/05
Global Equity Composite	12.0%	0.3%	7.8%	8.4%
MSCI All-Country World Index	12.7%	-4.3%	3.4%	4.4%

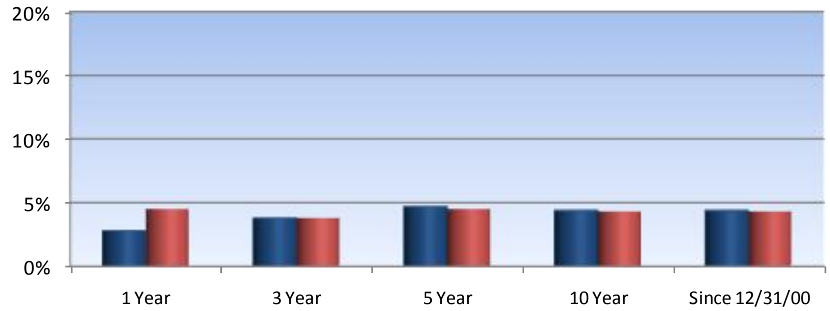
Non-U.S. Equity Composite



	1 Year	3 Year	5 Year	10 Year	Since 12/31/00
Non-U.S. Equity Composite	10.2%	-6.1%	4.1%	4.9%	4.9%
Benchmark*	11.2%	-5.0%	4.8%	5.5%	5.5%

* Blended benchmark: 12/31/00 to 3/31/04 MSCI EAFE; 3/31/04 to 5/31/04 MSCI EAFE + Canada; 5/31/04 to present MSCI ACWI ex-U.S.

Fixed Income Composite



	1 Year	3 Year	5 Year	10 Year	Since 12/31/00
Fixed Income	2.8%	3.8%	4.7%	4.4%	4.4%
Benchmark*	4.5%	3.8%	4.5%	4.3%	4.3%

*As of 7/1/03, the benchmark is 90% Barclays Capital Intermediate G/C /10% Citigroup 30-Day CD

PORTFOLIO MANAGERS

The performance of all managers is monitored quarterly. All managers are subject to thorough reviews at least annually. Hewitt Ennis Knupp, investment consultant for the Council, also assists in the performance analysis and review.

MANAGER PERFORMANCE

U.S. Equity

	1 Year	3 Years	5 Years	10 Years	Market Value 12/31/10 (in millions)
Barclays Russell 1000 Index	**16.1%**	**-2.4%**	**NA**	**NA**	**$ 147**
Russell 1000 Index	*16.1%*	*-2.4%*	*NA*	*NA*	
Dimensional Fund Advisors, Inc.	**30.9%**	**3.4%**	**3.7%**	**NA**	**10**
Benchmark[1]	*25.0%*	*4.2%*	*4.9%*	*NA*	
Turner	**32.0%**	**0.4%**	**NA**	**NA**	**10**
Russell 2000 Growth Index	*29.1%*	*2.2%*	*NA*	*NA*	

1. The DJ U.S. Small-Cap Value Index. Prior to August 2006, the Wilshire Small-Cap Value Style Index.

MANAGER PERFORMANCE

Global Equity

	1 Year	3 Years	5 Years	10 Years	Market Value 12/31/10 (in millions)
Acadian Asset Management, Inc.	**16.2%**	**-5.7%**	**4.8%**	**NA**	**$ 8**
MSCI All-Country World Index	*12.7%*	*-4.3%*	*3.4%*	*NA*	
Ironbridge	**14.6%**	**NA**	**NA**	**NA**	**9**
MSCI All-Country World Index	*12.7%*	*NA*	*NA*	*NA*	
MFS Institutional Advisors, Inc.	**12.9%**	**0.0%**	**6.5%**	**NA**	**8**
MSCI All-Country World Index	*12.7%*	*-4.3%*	*3.4%*	*NA*	
Mondrian	**7.8%**	**NA**	**NA**	**NA**	**8**
MSCI All-Country World Index	*12.7%*	*NA*	*NA*	*NA*	

MANAGER PERFORMANCE
Non-U.S. Equity

	1 Year	3 Years	5 Years	10 Years	Market Value 12/31/10 (in millions)
State Street Global Advisors	**8.5%**	**-7.4%**	**2.3%**	**3.7%**	**$ 49**
MSCI EAFE + Canada Index	*8.8%*	*-6.4%*	*3.0%*	*4.0%*	
Baillie Gifford Overseas Ltd.	**19.5%**	**1.7%**	**16.1%**	**NA**	**6**
MSCI EMF Index	*18.9%*	*-0.3%*	*12.8%*	*NA*	

MANAGER PERFORMANCE
Fixed Income

	1 Year	3 Years	5 Years	10 Years	Market Value 12/31/10 (in millions)
Health Care Fixed Income Fund[1]	**2.8%**	**3.8%**	**4.7%**	**4.4%**	**$ 74**
Benchmark	*4.5%*	*3.8%*	*4.5%*	*4.3%*	

1. Moved from the OIP to a separate account in March of 2004.

MANAGER PERFORMANCE
Real Estate

The table below represents the three investments in open end core funds for the private real estate portfolio. UBS and Prudential were hired in 2009 and Cornerstone was recently added during 2010. Time-weighted returns through 12/31/10 for the two initial investments and are shown separately below.

	1 Year	3 Years	5 Years	Market Value as of 12/31/10 (in millions)
Cornerstone Patriot Fund	**NA**	**NA**	**NA**	**$ 3**
NCREIF ODCE Index	*NA*	*NA*	*NA*	
UBS Trumbull Property Fund	**NA**	**NA**	**NA**	**1**
NCREIF ODCE Index	*NA*	*NA*	*NA*	
Prudential (PRISA)	**17.0%**	**NA**	**NA**	**0**
NCREIF ODCE Index	*15.3%*	*NA*	*NA*	

In addition to the core open-end funds, investments in two closed end funds have been made. Private real estate reports are available on a quarter lag and figures are shown below as of 9/30/10. The detail encompasses our private real estate commitments for both the General Endowments and the Health Care Endowment as those assets are commingled for investment purposes.

Portfolio Detail – GE & Health Care Endowments	Direct as of 9/30/10
Number of Investments	4
Total Commitments	$31,500,000
Total Paid-In	$12,009,196
IRR since inception	-6.89%
Partnerships	Metropolitan MREP VI
	Metropolitan MREP International III
	Prudential Property Investment
	UBS Trumbull Property Fund

Performance shown above is measured as an internal rate of return not a time-weighted rate of return. The real estate portfolio is still in the investment stage for many of its closed end funds and will continue to invest in closed end funds over time. Therefore, time-weighted rates of return during the initial stages of investment in the closed end funds is not meaningful since a fairly large amount of capital has yet to be called for those funds.

MANAGER PERFORMANCE

Private Equity

The Nebraska Investment Council began allocating to private equity with the initial commitment to a fund of funds. Private equity reports are on a quarter lag and are shown as of 9/30/10. The detail below includes our private equity commitments for both the General Endowments and the Health Care Endowment as those assets are commingled for investment purposes.

Portfolio Detail – GE & Health Care Endowment	Fund of Funds as of 9/30/10
Number of Investments	1
Total Commitments	$45,000,000
Total Paid-In	$ 3,825,000
IRR since inception	-21.1%
Partnerships	Abbott Capital Private Equity Fund VI, L.P.

Performance shown is measured as an internal rate of return not a time-weighted rate of return. At this point, time-weighted rates of return are not meaningful since a fairly large amount of capital has yet to be called and the portfolio is still in its early stages of development.

OVERVIEW

The University Funds are comprised of the University of Nebraska Fund N and the Restricted Fund. The investment manager for Fund N and the Restricted Fund is the University of Nebraska Foundation.

Fund N

Fund N was established from the Othmer-Topp Endowment Fund received from the estates of Mildred Topp Othmer and Donald F. Othmer, and approximately 225 permanent and quasi endowments. The Othmer-Topp bequests are to be held in perpetuity and used in accordance with the last will and testament of Mildred Topp Othmer for University purposes as directed by the Board of Regents.

Permanent and Quasi Endowments

The Permanent and Quasi Endowments represent the commingled investments of approximately 80 individual permanent endowments and 145 quasi endowments. The Permanent Endowments includes funds for which the benefactors and donors have directed the corpus be held in perpetuity, invested, and the income spent for the purposes designated by them. The Quasi Endowments contain funds that the Board of Regents has designated to function as endowments, with the income to be spent for the purposes designated by the Board.

Restricted Fund

The Restricted Fund is comprised of several funds that are restricted by the benefactors to be invested in U.S. Government and U.S Agency fixed income securities only. This is a permanent endowment fund.

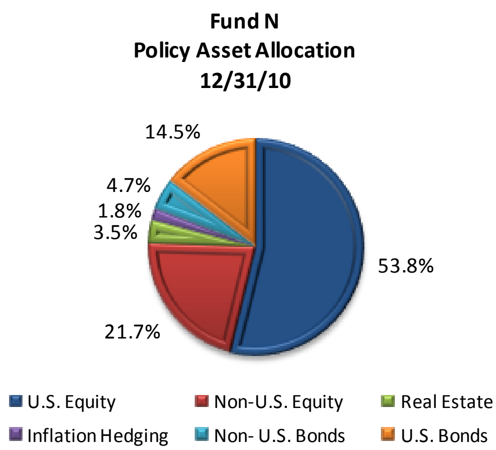
TRANSACTION SUMMARY[1]

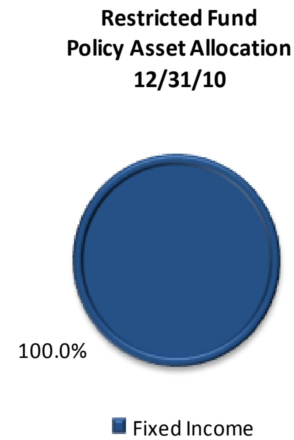
	Beginning Balance	Net Contributions	Investment Results	Closing Balance
	(thousands of dollars)			
Fund N	$227,052	-$2,271	$ 31,785	$256,566
Restricted Pool	992	-32	38	998
2010 Totals	**$228,044**	**-$2,303**	**$ 31,823**	**$257,564**
2009 Totals	$185,331	-$3,657	$ 46,370	$228,044
2008 Totals	271,385	-5,510	- 80,544	185,331

All information above excludes accrued income to be distributed January of the following year.

ASSET ALLOCATION

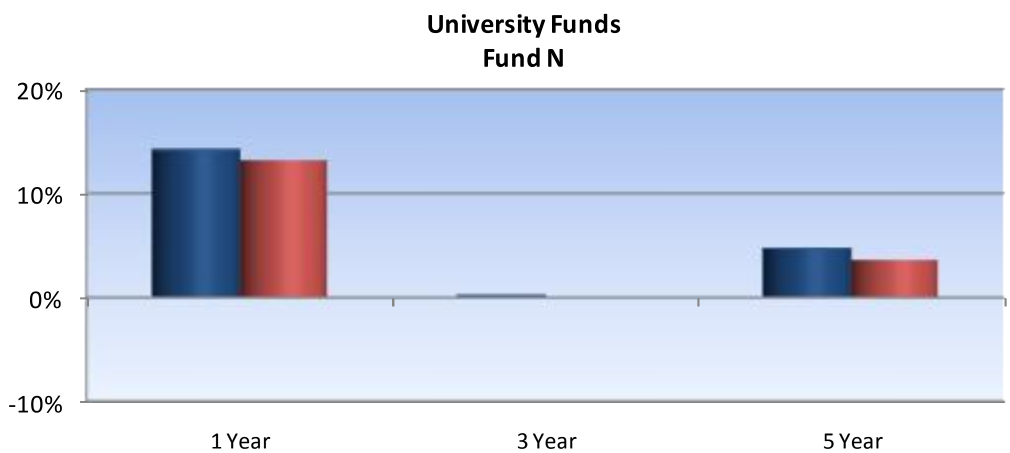
The asset allocation strategies for the University Funds are displayed below.





PERFORMANCE SUMMARY

Performance information for the University of Nebraska Fund N is presented below. Fund N performance information was provided by the investment manager – the University of Nebraska Foundation. At this time, the performance information for the Restricted Fund is not available.



	1 Year	3 Year	5 Year
Fund N	14.2%	0.2%	4.7%
Benchmark*	13.2%	-0.1%	3.6%

*The benchmark is a weighted average comprised of 73% S&P 500 and 27% Barclays Capital Aggregate Bond Index.

PORTFOLIO MANAGERS

Fund N and the Restricted Fund are managed by the University of Nebraska Foundation.

Miscellaneous Trusts
Excess Liability Fund

OVERVIEW
This Fund was created by the Nebraska Hospital-Medical Liability Act. Contributions consist of insurance premiums from certain health care providers and a surcharge levied on all health care providers in the State. The funds are used to pay judgments against the insured health care providers. The Nebraska Investment Council does not determine the distribution policy.

2010 HIGHLIGHTS
There were no substantive changes in the investment policy or investment managers of this Fund during 2010.

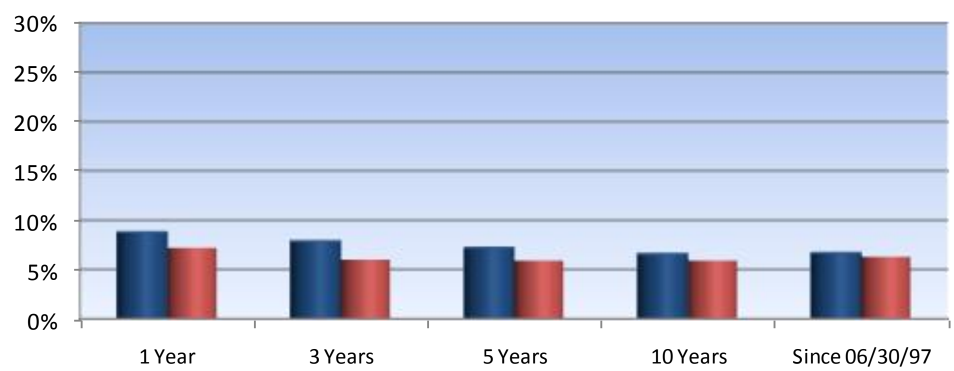
TRANSACTION SUMMARY

	Beginning Balance[1]	Net Contributions	Investment Results	Closing Balance
	(millions of dollars)			
Excess Liability Fund	$63.1	-$3.6	$5.2	$64.7

1. Due to a restatement of December 2008 assets, the beginning balance has changed since the 2008 annual report. The fiscal year-end of the plan is June 30, 2009.

ASSET ALLOCATION
This Fund is invested exclusively in fixed income securities. The assets of the Excess Liability Fund are commingled with the fixed income assets of the General Endowment Funds.

PERFORMANCE SUMMARY



	1 Year	3 Years	5 Years	10 Years	Since 06/30/97
Excess Liability Fund	8.8%	7.9%	7.2%	6.6%	6.7%
Benchmark*	7.2%	6.0%	5.9%	5.9%	6.3%

* Blended benchmark: 6/30/97 to 3/31/05 Barclays Capital Aggregate Bond Index; 4/1/05 to present Barclays Capital Universal Bond Index.

PORTFOLIO MANAGERS

External portfolio managers are chosen by means of a thorough search process. The performance of all managers is monitored quarterly. All managers are subject to thorough reviews at least annually. Hewitt Ennis Knupp, investment consultant for the Council, assists in manager searches, performance analysis and review.

MANAGER PERFORMANCE

For individual investment manager performance, see the General Endowment manager performance section. The assets of the Excess Liability Fund are commingled with the fixed income assets of the General Endowment Funds for investment purposes.

Miscellaneous Trusts
Aeronautics Trust Fund

OVERVIEW
This Fund receives the proceeds from the sale of state-owned airfields. Investment income is used to pay expenses of the Department of Aeronautics. The Nebraska Investment Council does not determine the distribution policy.

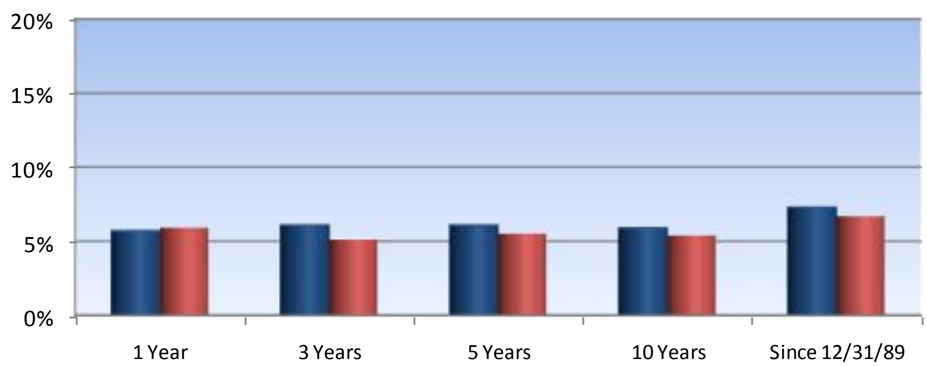
2010 HIGHLIGHTS
There were no changes in the investment policy or the investment managers of this Fund during 2010.

TRANSACTION SUMMARY

	Beginning Balance	Net Contributions	Investment Results	Closing Balance
	(millions of dollars)			
Aeronautics Trust Fund	$6.5	-$0.3	$0.4	$6.6

ASSET ALLOCATION
Pursuant to contractual restrictions, these assets are invested in securities issued by the U.S. government or its agencies only. The assets are not commingled with other entities.

PERFORMANCE SUMMARY



	1 Year	3 Years	5 Years	10 Years	Since 12/31/89
Aeronautics Fund	5.7%	6.1%	6.1%	5.9%	7.3%
Barclays Capital Treasury Index	5.9%	5.1%	5.5%	5.4%	6.7%

PORTFOLIO MANAGER
The Aeronautics Trust Fund is 100% internally managed.

MANAGER PERFORMANCE
Manager performance is equal to the performance summary above.

Miscellaneous Trusts
Agricultural Development Fund

OVERVIEW
This Fund consists of money received from the U.S. Department of Agriculture. Income from the Fund is used to pay expenses of the Nebraska Department of Agriculture. The Nebraska Investment Council does not determine the distribution policy.

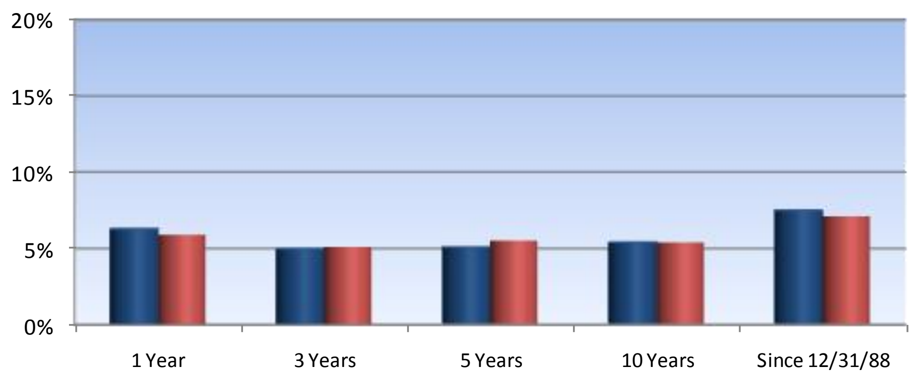
2010 HIGHLIGHTS
There were no changes in the investment policy or the investment managers of this Fund during 2010.

TRANSACTION SUMMARY

	Beginning Balance	Net Contributions	Investment Results	Closing Balance
	(millions of dollars)			
Agricultural Development Fund	$2.7	-$0.1	$0.2	$2.8

ASSET ALLOCATION
Pursuant to contractual restrictions, these assets are invested in securities backed by the full faith and credit of the United States government only. The assets are not commingled with other entities.

PERFORMANCE SUMMARY



	1 Year	3 Years	5 Years	10 Years	Since 12/31/88
Ag Development Fund	6.3%	5.0%	5.1%	5.4%	7.5%
Barclays Capital Treasury Index	5.9%	5.1%	5.5%	5.4%	7.1%

PORTFOLIO MANAGER
The Agricultural Development Fund is 100% internally managed.

MANAGER PERFORMANCE
Manager performance is equal to the performance summary above.

Miscellaneous Trusts
Joseph J. Soukup Trust Fund

OVERVIEW
This Fund was established to provide a lifetime income benefit to Joseph J. Soukup. The principal in the Fund reverts to the State upon his death.

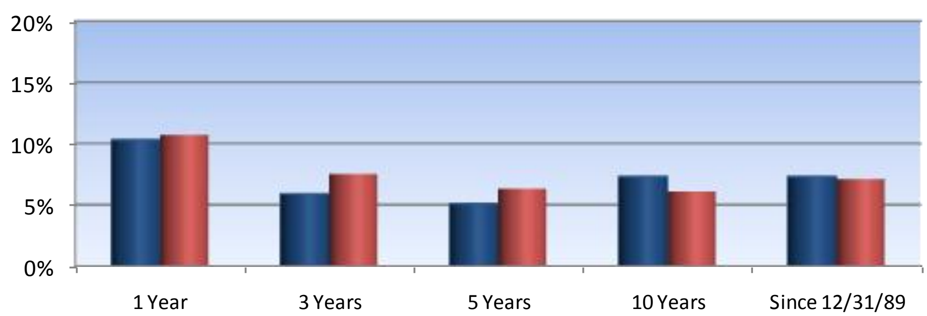
2010 HIGHLIGHTS
Mr. Soukup's income benefit remained constant at $1,330 per month.

TRANSACTION SUMMARY

	Beginning Balance	Net Contributions	Investment Results	Closing Balance
	(millions of dollars)			
Joseph J. Soukup Trust Fund	$0.3	$0.0	$0.0	$0.3

ASSET ALLOCATION
These assets are invested in a portfolio of high quality fixed income securities designed to provide Mr. Soukup with a stable income stream that will increase over time to offset inflation. The assets are not commingled with other entities.

PERFORMANCE SUMMARY



	1 Year	3 Years	5 Years	10 Years	Since 12/31/89
Soukup	10.3%	5.9%	5.1%	7.3%	7.3%
Benchmark*	10.7%	7.5%	6.3%	6.1%	7.1%

* As of September 2006, the Baraclays Capital Long Credit Index. Prior to September 2006, the Barclays Capital Aggregate Bond Index.

PORTFOLIO MANAGER
The Joseph J. Soukup Trust Fund is 100% internally managed.

MANAGER PERFORMANCE
Manager performance is equal to the performance summary above.

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Nebraska Investment Council
Code of Ethics, Policy on Conflicts of Interest and Council Procedures
Amended March 7, 2007

ARTICLE I
Code of Ethics

Members of the Nebraska Investment Council and NIC employees shall:

- Act with integrity, competence, dignity, and in an ethical manner when dealing with the participants, public, consultants, managers and fellow Council members and NIC employees.
- Strive to maintain and improve their competence.
- Use reasonable care and exercise independent professional judgment.

ARTICLE II
Conflict of Interest

Definition of a potential conflict. Any Council member or NIC employee has a potential conflict of interest when the member or employee, in the discharge of his or her official duties, would be required to take an action or make any decision, or participate in a discussion of either, that may cause financial benefit or detriment to him or her, a member of his or her immediate family, or a business with which he or she is associated, or a campaign for an elective office he or she seeks, which is distinguishable from the effects of such action on the public generally, or a broad segment of the public.

Disclosure of a potential conflict. Council members or NIC employees are required to file a Potential Conflict of Interest Statement (NADC Form C-2) whenever a potential conflict of interest arises. All Council members and NIC employees shall disclose to the full Council all items that involve entities doing business with the Council that must be disclosed by state statute when appropriate or at least annually.

Deliberations and Voting. Any Council member or NIC employee who declares or has been found to have an actual conflict of interest by the Council shall be absent from any deliberations and shall not vote on the matter determined to be a conflict, and shall not take any action to influence the outcome of the matter.

Gifts. Council members and NIC employees should limit the acceptance of gratuities and/or gifts from entities doing business with the NIC. US$100 is the maximum acceptable value for a gift or gratuity. This standard does not preclude customary, ordinary, business-related entertainment so long as its purpose is not to influence or reward members. Campaign contributions from entities (or employees thereof) doing business with the NIC may exceed the US$100 maximum, but shall be regarded as a potential conflict of interest and shall be disclosed to the full Council.

ARTICLE III
Council Procedures

Council Meetings. The manner in which meetings are to be conducted shall be at the discretion of the Council.

Council Chair. The Council Chair works with the State Investment Officer to plan the meeting agenda and conducts the meeting in the manner agreed to by the Council. The Chair may appoint Council members and others to committees or task forces with Council consent.

Council Member authority. Individual Council members have no legal authority to act for the NIC. Individual Council members can exercise authority only by making decisions together.

Council agenda. The Council meeting will run according to an agenda plan prepared by the Council Chair and the State Investment Officer. All Council members can request that issues be placed on the agenda by bringing those issues to the attention of the State Investment Officer or Council Chair in writing no later than 14 days prior to the date the meeting is scheduled. The Council may modify the agenda to include items of an emergency nature only at its scheduled meeting.

Council Spokesperson. The Council may designate specific person(s) to speak on its behalf on a particular issue. When this designation is made, Council members shall refer the media and other parties to the Council's designee(s).

Executive session. The Council may hold an executive (closed) session as provided by state law. Deliberations during executive session shall be confidential and any person attending an executive session shall refrain from disclosing outside of executive session any information discussed therein, except information that was already in the public domain or required to be disclosed by law or by order of a court of competent jurisdiction. The Council shall be empowered to review any alleged disclosure of confidential information, and any person deemed by the Council to have violated this confidentiality requirement shall be subject to such censure as may be imposed by the Council, including but not limited to public censure.

Statement of Investment Philosophy
Amended August 14, 2007

INTRODUCTION

The Nebraska Investment Council ("NIC") has been empowered by Neb Rev. Stat. § 72-1239.01 to act as fiduciary on behalf of the State's Retirement Plans, Operating Investment Pool, College Savings Plan, and other Trusts and Endowments. The mission of the NIC is as follows:

> *It is the mission of the Nebraska Investment Council to prudently manage the funds entrusted to us by the people of the State of Nebraska. We deliver investment management services to provide direct financial benefit exclusively to the owners of these funds. We are committed to thorough, sound, and informed analysis in order to achieve superior returns while maintaining prudent levels of risk.*

PURPOSE

The NIC has developed this Statement of Investment Philosophy to provide clear articulation of the NIC's long-term investment philosophy regarding return and risk objectives for the various investment pools to which the NIC has fiduciary obligations.

INVESTMENT PHILOSOPHY

The guiding philosophy is to allow sufficient flexibility in the management process while maintaining reasonable parameters to ensure prudence and care in the execution of the investment program. The NIC will comply with all existing and future applicable State and Federal regulations and will administer its duties solely for the benefit of the plan participants and State agencies with the care, skill, prudence and diligence under the prevailing circumstances that a prudent expert acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character, purposes and aims.

The NIC believes that its long-term investment objectives will be achieved through emphasizing equity-oriented investments and through prudent management of those risks which do not offer sufficient long-term rewards. Thus, investment strategies will be developed to provide consistent value-added relative to relevant market-based benchmarks and will incorporate effective risk controls. The NIC's investment philosophy is based upon a set of factors that have widely accepted theoretical and empirical bases.

1. Asset allocation has the most significant impact on investment results. The NIC will focus significant efforts on the development and maintenance of asset allocation strategies that will optimally fulfill investment objectives.
2. Some markets are efficient while others are less so or inefficient. Investment strategies will reflect a mix of active and passive investments, with passive investments being emphasized in the more efficient markets.
3. Capital markets revert to the mean over long-time periods. Investment strategies will generally be long-term in nature and will avoid ad hoc decision-making based upon short-term factors.
4. Costs have a meaningful impact on returns. Investment strategies will utilize cost effective approaches.
5. Valuation and analysis based upon fundamentals generally produce superior return/risk results. Investment strategies will focus on fundamentally-based processes.
6. Performance measurement and monitoring activities provide assessment of success of the NIC's investment strategies and implementation of those strategies. Clear, unambiguous market-based benchmarks will be selected for each investment strategy. Performance reviews of all investment strategies will be conducted at least annually.

7. When hiring investment managers, the Council prefers to utilize Nebraska-based investment advisers licensed by the State of Nebraska as long as the manager satisfies the criteria, State statutes, etc., established for the selection process.
8. In order to achieve prudent diversification in the Defined Benefit Plans, the Cash Balance Benefit, the General Endowment Funds and the Health Care Endowment, the maximum target allocation that will be allowed to any one active equity investment manager is 10% of the total portfolio, except in unusual, and most likely temporary circumstances.
9. No contributions of any kind will be made to the portfolios of investment managers in the Defined Benefit Plans, the Cash Balance Benefit, the General Endowment Funds and the Health Care Endowment which are on the Council's watch list. An index fund corresponding to the specific mandate of the manager on watch will be used for the contributions instead.

DESCRIPTION OF ASSETS

The assets to which this Statement of Investment Philosophy applies are defined as follows:

1) Defined benefit plans
   a) The School Retirement System
   b) The State Patrol Retirement System
   c) The Judges' Retirement System

2) The State Employees Retirement System of the State of Nebraska
   a) Defined Contribution
   b) Cash Balance Benefit

3) The Retirement System for Nebraska Counties
   a) Defined Contribution
   b) Cash Balance Benefit

4) The State of Nebraska Deferred Compensation Plan

5) College Savings plans
   a) College Savings Plan of Nebraska
   b) AIM College Savings Plan

6) Operating Investment Pool

7) Trusts and Endowments
   a) Health Care Endowment Fund
   b) Permanent Endowment Fund
   c) Early Childhood Education Endowment Fund
   d) Nebraska Veteran's Aid Fund
   e) Cultural Preservation Endowment Fund
   f) Agricultural Endowment Fund
   g) Permanent University Endowment Fund
   h) Normal School Endowment Fund
   i) Nebraska Environmental Endowment Fund
   j) Bessey Memorial Fund
   k) Excess Liability Fund
   l) Aeronautics Trust Fund
   m) Agricultural Development Fund
   n) Joseph J. Soukup Trust Fund
   o) Department of Environmental Quality Fund

Governance Policy
Adopted November 14, 2005

The Nebraska Investment Council (the Council) acknowledges the importance of prudent governance of its proceedings. Accordingly, this Policy has been approved by the Council regarding related issues.

ADVOCACY

Section § 72-1239.01 of the State Funds Investment Act states "No assets of the retirement systems or the Nebraska educational savings plan trust shall be invested or reinvested if the sole or primary investment objective is for economic development or social purposes or objectives." Therefore, the Council's activity as advocates for economic or social issues will be minimal, and always in accordance with the above statute.

COMMITTEES OF THE COUNCIL

The Council has established a standing audit committee which meets at least quarterly to review the following items:

- The Agency's internal procedures and compliance thereto.
- The adequacy of controls, particularly with regard to the movement of money.
- Compliance with State statutes and Council policies.
- That all external manager fees paid by the Council are accurate and in accordance with fee schedules.
- The reconciliations of all account balances as reported by the manager and by the custodian.
- The State's audit report of the Agency and related findings.

Members of the audit committee, as well as the Chair of the committee, are named by the Chair of the Council. At least annually the committee will meet with the internal auditor of the Agency regarding internal risk controls and compliance. The Chair of the audit committee will report to the full Council a summary of its findings at the first Council meeting of each fiscal year.

The Council may establish ad hoc committees of the Council to address specific matters and issues as needed. Ad hoc committees will be disbanded once they have satisfied their mandate.

AGENDAS, MEETING MATERIALS, AND TELECONFERENCING

Meeting agendas will be established by the State Investment Officer, in consultation with the Chair. The agenda and related materials for Council meetings will generally be distributed to Council members at least seven calendar days in advance of the meeting. Council meetings will be conducted in accordance with the Nebraska Open Meetings Act, Neb. Rev. Stat. §§ 84-1407 to 84-1414.

It is important to note that the Attorney General of Nebraska has issued an opinion that the Nebraska Public Meetings Statutes authorize the use of teleconferencing for emergency meetings only. Emergency meetings must satisfy two criteria: the nature of the emergency must be unforeseen and it must require immediate action. In the event of an emergency meeting, voting members participating by telephone conference may vote on an action item. In the event of a regularly scheduled non-emergency meeting at which a quorum is physically present, a member may listen and speak by telephone conference but not vote nor count toward the quorum.

PROXY VOTING

Unless otherwise approved by the Council, the voting of proxies is delegated to the investment managers in accordance with the Council's Proxy Voting Policy.

SECURITIES LITIGATION (INCLUDES CLASS ACTIONS, BANKRUPTCIES, AND DIRECT LEGAL ACTION)

The Council recognizes that potential recoveries from class actions are important, and will respond in accordance with its approved Class Action Policy. Staff will monitor the class action process on a monthly basis to ensure that each phase of the class action process is completed for any and all class actions.

Bankruptcies are generally handled by the corresponding investment manager because they involve an investment decision. The manager must decide whether to participate in a bankruptcy workout or sell the security and forgo any claims. For securities not sold, the investment manager will handle the proof of claim process. If the bankrupt security is held in a commingled fund, the Council's share in any recovery is based on the Council ownership interest at the time of re-investment of recoveries, and not the record date of the bankruptcy.

Actions taken by the Council on direct litigation are to be prudent, on behalf of plan participants, and in concert with advice of legal counsel.

Nebraska Investment Council Policy on Board/SIO/Investment Service Providers/Staff Responsibilities and Relationships Amended January 19, 2004

RELATIONSHIPS

The Nebraska Investment Council (the NIC) has been statutorily given fiduciary responsibility for certain Retirement Plans, the State's Operating Investment Pool, the College Savings Plan, and other trusts and endowments. The State Investment Officer (the SIO) reports directly to the NIC and has responsibility for the overall administration and day-to-day operations of the NIC.

The NIC shall hire such investment consultant (the IC) as it authorizes who shall coordinate with the SIO on all investment matters. The NIC shall also hire various investment managers and other consultants as the NIC shall from time to time approve, all of whom shall report to the SIO. Any Council member who has individual interactions with current or prospective investment service providers shall disclose that interaction at the next NIC meeting at which consideration of the provider is addressed.

The NIC Agency staff shall report to the SIO and interactions with Agency staff shall be through the SIO unless direct contact is authorized by the SIO.

RESPONSIBILITIES*

The NIC shall have the following responsibilities:

- Articulate Fund Objectives.
- Approve and oversee investment philosophy and policies.
- Approve and oversee asset allocation and/or investment structure.
- Approve and oversee asset class strategy and investment guidelines.
- Assess and oversee investment performance for the total portfolio and each asset class.
- Approve and oversee the investment program operating policies (proxy voting, manager monitoring, securities lending, commission recapture, etc.).
- Act on recommendations of the SIO and the IC for selection, retention and termination of investment managers, consultants and custodians (to the extent statutorily required, jointly with an elected official).
- Assure that the investment program is in compliance with laws, regulations, Plan documents, and the custodian agreement.
- Assure cost effective management of the investment program.
- Assure the effective administration/management of the investment program by the SIO.
- For the relevant plans, conduct an asset/liability study every three years and reevaluate the asset allocation annually (after the updated expected rates of return are available from the IC), or as more frequently required by the NIC .

The SIO shall have the following responsibilities:

A. Investment policy development and implementation
   1) Provide oversight to, and coordinate the development of, the State of Nebraska investment policies for the approval of the NIC. Investment policies shall include asset allocation, risk measurement, and return objectives for each investment fund.
   2) Investment policy development shall entail a review and selection of acceptable vehicles and structures for the State's investments.
   3) Investment policy shall articulate the respective roles in investment decision-making of the NIC, staff, the IC, and investment managers.
   4) Coordinate the presentation of proposed policies to the NIC and the communication of approved policies to interested parties.

5) Determine implementation priorities and time schedules.
6) Orchestrate and participate in the recruitment, selection, and contract negotiation process on behalf of the NIC with investment service providers.
7) Provide oversight to all implementation activities, including portfolio accounting, cash allocation, and the compliance of the investment funds with applicable state and federal laws and regulations.
8) Execute legal documents on behalf of the NIC, including investment advisory and consulting contracts, partnership agreements and commingled fund subscription agreements.

B. Liaison activities

a) Coordinate the NIC meetings and activities including development of meeting agendas and the provision of all internal and external reports and presentations on each meeting agenda.
b) Inform the NIC members in a timely manner of all significant developments related to State investment programs.
c) Communicate regularly, and work cooperatively, with the Executive Director of NPERS, including NPERS meeting attendance.
d) Communicate regularly, and work cooperatively, with the State Treasurer.
e) Conduct orientation sessions for the new NIC members.
f) Represent State investment programs to other State agencies, the Governor's office, Nebraska legislature, federal government agencies and members of the press.

C. Maintain knowledge of current industry trends

1) Attend relevant industry conferences, regularly meet with industry representatives, and regularly review industry publications.
2) Provide the NIC with periodic educational sessions on investment topics of current relevance.
3) Inform the NIC of educational opportunities for fiduciaries.
4) Keep current on federal laws, regulations, standards and policies governing the various funds for which the NIC has responsibility.
5) Keep current on investment principles, practices, and procedures for all public markets asset classes.
6) Be acquainted with the role of actuarial concepts in funding defined benefit retirement plans and providing for payment of promised benefits.

D. In-state investment opportunities

1) Regularly meet, and communicate with, State agencies, investment officers, investment managers, and private investors.
2) Monitor and ensure that in-state investment opportunities are objectively and thoroughly evaluated under the State investment programs' investment criteria.

E. Supervise State investment staff

1) Develop strategic plan for investment staff.
2) Make recommendations regarding staffing requirements and appropriate salary levels to ensure optimal fulfillment of investment staff responsibilities.
3) Oversee and participate in the recruitment, selection, and retention of investment staff.
4) Administer personnel policies within the State investment office, evaluate staff performance, determine merit increases, oversee staff development and training, and determine appropriate disciplinary actions.

F. Other duties, projects and responsibilities as the NIC may from time to time assign.

<u>The IC shall have the following responsibilities:</u>

- Make recommendations regarding asset allocation and money managers.

- Regularly calculate investment performance and provide systematic review of the performance, including comparison to objectives, benchmarks, etc.
- Monitor investment managers for performance, style attributes, and key personnel changes.
- Participate in investment manager searches.
- Assist in the establishment of benchmarks.
- Provide education as needed and/or requested.
- Bring new ideas/products to the NIC and the SIO that may aid in accomplishing goals.
- Coordinate with the SIO in advance of presentation to the NIC any recommendations and evaluations.

The IC shall be evaluated based on:

1) The comparison of the long-term rate of return of the Defined Benefit Plans to the actuary's assumed investment rate of return, the achievement of the relative performance objective of being in the top third of the TUCS universe of large ($\geq$ \$1 billion) public funds, and the implementation analysis of actual return measured against strategy return.
2) Responsiveness to the requests of the NIC and the SIO.

The NIC Agency staff shall have the following responsibilities:

- Perform those duties and responsibilities as are assigned to them by the SIO.

*Additional specific responsibilities may be found in the Investment Policy Statement for each Fund managed by the NIC.

Private Equity Statement of Investment Policy
Approved March 31, 2009

TABLE OF CONTENTS

Section

I. REVISION HISTORY

Action	Date
Original approved and established…………………………………....	September 2007
Policy revised……………………………..Draft……………………	February 2009
Policy revised……………………………..Draft……………………	March 2009
Policy approved……………………………………………………	March 2009

II. SCOPE AND HISTORY

This policy applies to the Private Equity funds of the Nebraska Investment Council ("The Council"). In 2005, the Nebraska Investment Council approved a recommendation to invest 5.0% of the Defined Benefit Plan and Cash Balance Benefit Plan assets in Private Equity in early 2005. The Council's first investment step in Private Equity was to approve a long-term target allocation of 5.0% to this asset class, but purposely committed only a portion of the 5% allocation to allow The Council time to gain further experience and comfort with this asset class. As a result, two fund of funds managers were hired with commitments of $100 million and $50 million, respectively. Fully funded, the $150 million commitment would represent less than 3.0% of defined benefit/cash balance benefit plan assets. The Council's intent in not making a full commitment initially to Private Equity through funds of funds was to re-evaluate the allocation and to consider a strategy at a later date to fully implement the long-term target allocation of 5.0% (+/- 2.0%). In order to implement its investment strategy, The Council will use individual investment managers and fund of funds in certain circumstances.

III. PURPOSE AND OBJECTIVES

The purpose of this Private Equity Statement of Investment Policy is to formalize The Council's investment objectives and policy with respect to the Private Equity asset class and to define the duties and responsibilities of the various entities involved in the Private Equity investment process. This statement is to be considered an extension of The Council's overall Statement of Investment Policy. No provision of this Private Equity Statement of Investment Policy shall be construed in contravention of the enabling legislation found in the state's pension code.

IV. INVESTMENT PHILOSOPHY

The Council allocates a portion of its total assets to the Private Equity asset class. The Council defines its Private Equity asset class by investments made in the equity or debt securities of privately owned operating companies. The Council allocates assets to Private Equity with the following goals:

Diversification with Other Asset Classes
Private Equity returns have historically performed differently than the returns of other asset classes in which The Council invests. The Council believes that Private Equity returns will continue to behave differently from other asset class returns, allowing The Council to lower the risk of its overall portfolio through diversification by allocating to the Private Equity asset class.

Return Enhancement
Private Equity partnership total rates of return are expected to be greater than those that are expected from conventional equity investments. To help The Council portfolio's ability to outperform and produce excess returns, an allocation is made to the Private Equity asset class in these styles.

Current Income and Appreciation
Certain debt and energy related Private Equity strategies have historically shown the ability to maintain a moderate current income component with a modest appreciation component. As such, an appropriate proportion of The Council Private Equity portfolio is targeted to be allocated to each of these strategies referred to as special situations.

V. ALLOCATION

The Council controls allocation risk at the plan level as shown below in Table 1. The allocation establishes a 5.0% (+/- 2.0%) target for Private Equity.

Table 1. Private Equity Target Allocations.

Fund	Target
Defined Benefit	5.0%
Cash Benefit Balance	5.0%
General Endowment	5.0%
Health Care Endowment	5.0%

Asset allocation is a critical driver for the long-term success of the Private Equity program. Standard portfolio theory suggests that asset allocation risk is managed by establishing target portfolio exposure parameters and optimizing the portfolio along risk and return expectations. Private Equity is not conducive to a rigorous quantitative approach and asset allocation risk is controlled through long-term subjective market value parameters.
Long-term market value targets are established below. The Private Equity portfolio will achieve diversification beyond geographic focus by investing in partnerships that are complementary in nature regarding fund size, sector and strategic focus.

Table 2. Private Equity Sub Sector Allocations and Ranges

Sub Sector	Range
Buyouts/Corporate Finance	40.0 - 50.0%
Venture Capital	up to 25.0%
Special Situations	25.0 - 40.0%

VI. PERFORMANCE OBJECTIVES

Private Equity performance is benchmarked against the Wilshire 5000 Index plus 300 basis points per annum for cash flows older than three years and against the pooled average return of Venture Economics for cash flows during the first three years.

Objective - long-term rates of return on investments.

1. To achieve long-term rates of return on alternative investments, net of fees and expenses, that meet or exceed the required rate of return on liabilities or other fund objectives and that meet or exceed market-based performance benchmarks without taking imprudent risk.

2. To achieve superior total returns when compared to traditional asset classes and to exceed the Wilshire 5000 Index (total time-weighted returns including dividends) by 300 basis points per annum in the long run.

3. To diversify away from traditional asset classes' capital market risks.

Time Horizon - Performance of the alternative investment assets against their return objectives will be measured over a full market cycle. Market cycles may differ markedly in length based on the type of investments made, and there is no standardized measure for a market cycle's term. The time horizon for alternative asset classes, by their nature, is longer than traditional asset classes. Most of the partnerships have lives ranging from ten (10) to twelve (12) years. Performance shortfalls relative to the return objectives for the alternative assets will be tolerated over portions of the market cycles, provided that the return objectives for the alternative assets are met over the full market cycle. Performance of funds that have been approved by The Council, but have not called capital, will be excluded from the performance analysis.

Diversification - Diversification of risk across a broad cross-section of funds and vintage years is a primary way that The Council will manage the riskier and illiquid nature of investments in alternative asset classes. The objective in each alternative asset class will be to achieve broad diversification by having access to a variety of sub-sectors, industries, and geographies throughout the portfolio.

Cashflows and Liquidity - Investments in alternative asset classes such as Private Equity are less liquid than traditional asset classes (public equities and fixed income). As a result, the management of cashflows into and out of alternatives must be carefully managed. Early in the investment cycle, there will be a negative cashflow as new investments and fees to managers on commitments exceed the cash that is being distributed from the investments in the form of income, appreciation or return of capital. It should also be noted that given the typical funding/distribution pattern of Private Equity funds, The Council will likely need to over-commit by a ratio of approximately 2 to 1. To achieve its target allocation of 5.0%, the Council may need to commit nearly 10.0% of its assets to Private Equity funds and funds of funds. Once The Council's alternative investment allocation is fully funded, distributions will be redeployed in new opportunities to maintain target exposure to these asset classes and to rebalance if Private Equity is below or exceeds the target allocation.

Most of the structures that The Council will utilize in implementing its alternative asset strategy will have limited liquidity as compared to public securities. The Private Equity funds will draw down capital as transactions are funded and distribute proceeds as transactions are liquidated.

Other Considerations - After The Council's allocation to Private Equity is fully funded, it is expected that cashflows from distributions will be reinvested in the asset class to maintain full funding of allocations and to rebalance if the asset class is above or below its target allocation.

VII. PERMISSIBLE INVESTMENTS

The majority of the allocation to the Private Equity asset class should consist of equity ownership of privately- held institutional Private Equity investments. A portion of The Council's private markets

Private Equity assets may also consist of non-equity investments (e.g., senior and subordinated debt, mezzanine financing, preferred equity, options and warrants).

This policy authorizes the use of all investment types, including:

Corporate Finance/ Buyouts
(40% to 50% allocation) – Partnerships which provide funding to acquire majority or controlling interests in a business or product lines from either a public or private company. These partnerships are generally diversified by industry and other relevant measures. Buyout partnerships cover company size ranges from mega to small-market.

- Classification by Fund Size
  - Small Buyout $0-500 million
  - Medium Buyout $500 – 1,000 million
  - Large Buyout $1,000 – 5,000 million
  - Mega Buyout $5b +

- Classification by Total Enterprise Value
  - Small Buyout $0-100 million
  - Medium Buyout $100 – 1,000 million
  - Large Buyout $1,000 – 3,000 million
  - Mega Buyout $3b +

Venture Capital
(up to 25% allocation) – Investments in newer high growth companies typically addressing technology, life sciences and other specialty growth industries. Venture Capital partnerships will be allocated into three categories and The Council will endeavor to select partnerships that represent the strategies in the appropriate amounts and diversity.

- Seed – An entrepreneur has a new idea or product, but no established organization or structure. Investors tend to provide a few hundred thousand dollars and perhaps some office space to an entrepreneur who needs to develop a business plan.

- Early Stage – The organization has been formed and has employees, and products are in the developmental stage. Early-stage investors back companies when they have a completed business plan, at least part of a management team in place, and perhaps a working prototype.

- Later Stage – An established infrastructure is in place, and the company has a viable product that is market-ready and generating revenues. Later-stage investors typically provide financing for expansion of a company that is producing, shipping, and increasing its sales volume.

Special Situations
(25% to 40% allocation) Partnerships with private corporate finance investment strategies that do not fall under the prior two categories or do not justify a separate long-term strategic allocation. The Council will seek to diversify the portfolio across various sub-strategies. Examples include:

Distressed Debt/Turnaround: Investments made in distressed or poorly performing companies, with the intent of initiating a recovery via financial restructuring or the introduction of management expertise. Partnerships investments may include debt and/or equity securities.

Subordinated Debt (Mezzanine): Partnerships that make debt-related investments in unsecured or junior obligations in financings. These generally take the form of subordinated debentures or preferred stock. They typically earn a current coupon or dividend and have warrants on common stock or conversion features.

Hybrid Partnerships: Funds that have broad strategy mandates and may invest materially in non-control investment structures or a variety of strategies that would preclude a simple venture capital or buyout categorization.

Industry Specific: Funds that target a specific industry (e.g., healthcare, energy, financial services, media and communications, etc.). These funds may be considered as having greater industry specific risk than more diversified buyout funds.

Other: There are on occasion Private Equity partnerships that pursue strategies different from those cited above (i.e., secondary purchase, market dislocation, first time fund) that The Council may, in its discretion, seek to participate.

VIII. RISK MANAGEMENT

For Private Equity investments, the following sections identify the most significant risks and the method of control. Compliance with the following risk parameters shall be based on % of the Private Equity portfolio's Net Asset Value or Fair Value as of each quarter end.

1. *Investment Type*
   The Council seeks to minimize the risk of its Private Equity portfolio by allocating its assets across the spectrum of sub sectors.

   Allowable Range of Total Private Equity Allocation

Corporate Finance/ Buyouts	40-50%
Special Situations	25-40%
Venture Capital	up to 25%

2. *Geographic*
   The Council seeks to minimize the risk of its Private Equity portfolio by allocating its investments across the geographic spectrum. No more than 35% of the Private Equity portfolio may be invested outside of the US.

3. *Manager*

   Manager risk consists of two elements: the exposure to a manager and the number of managers in the Private Equity portfolio. To control manager exposure, the allocation to a single Private Equity manager is limited to 20% of the Private Equity allocation.

4. *Industry*

   Industry exposure will be controlled through appropriate diversification across a broad cross-section of funds which focus on specific industries and through commitments to funds whose objectives include industry diversification objectives. No more than 30% of the Private Equity portfolio may be invested in any single industry.

5. *Life Cycle*

   Most Private Equity funds will have life cycles between 10 and 12 years. Fund of funds may have a lifespan up to 15 years.

6. *Leverage*

   The Council allows its managers to use leverage in their investment strategy as a means of enhancing the overall risk-adjusted returns available to The Council. Managers invest capital from Private Equity partnerships throughout the capital structure of firms. The capital markets control the maximum leverage available to the general partners. The Council will control leverage exposure through partnership selection and portfolio construction.

7. *Currency*

   The Council accepts there are currency risks consistent with investments outside the United States.

8. *Liquidity*

   Private Equity investments are illiquid and typically have expected holding periods of 10-12 years. Investments are typically held until maturity and selling prior to maturity typically results in a discount to fair market value. As such, The Council understands and recognizes that the Private Equity asset class will not be structured in a way to provide liquidity for the overall portfolio. Should market values for Private Equity change such that the asset class falls out of compliance with these guidelines, all avenues of remedying the violation will be evaluated and monitored by the consultant and The Council's Staff, but no action will be required to be taken to rebalance if it is believed that the forced sale will result in adverse economic impact to the overall Private Equity portfolio.

IX. INVESTMENT MANAGER SELECTION

In order to implement its investment strategy, The Council will use individual investment managers and fund of funds in certain circumstances. The Council has a responsibility to its constituents to make investments with the objective of obtaining superior total long-term rates of return, while using acceptable levels of risk and reasonable cost controls. The availability of qualified minority and women-owned business enterprises is recognized by The Council. The characteristic of being a minority or woman-owned business enterprise is not a barrier to employment by The Council.

It is the policy of The Council to include qualified minority and women-owned business enterprises in the investment manager selection process, and to objectively evaluate all qualified investment manager candidates regardless of race, gender, or handicap.

The Council will evaluate all qualified investment manager candidates with emphasis on demonstrated track record performance, organizational depth, fit within the Private Equity portfolio, institutional investment management capability and experience, investment process, and reasonableness of fee structure and terms, regardless of the amount of investment assets under management or the age of the investment management firm.

The Council may use professional consultants that do not use discriminatory practices in the creation and maintenance of their investment manager databases, and may require the consultants to affirm their use of non-discriminatory practices when recommending investment manager candidates to The Council.

X. DISTINCTION OF RESPONSIBILITIES

The Council is responsible for approving the Private Equity Statement of Investment Policy.

The Council is responsible for selecting the investment managers used to implement the Private Equity Statement of Investment Policy.

The Council Staff is responsible for recommending investment managers to The Council, as well as for managing the Private Equity asset class and monitoring the investment managers, as described by the Private Equity Statement of Investment Policy on an ongoing basis.

The Council Staff may retain a Consultant to assist in selecting and monitoring investment managers, as well as to present the performance of the Private Equity asset class to The Council. The Consultant may also assist the Staff in developing and recommending any changes to the Private Equity Statement of Investment Policy.

Investment managers are used by The Council to implement the specific investment strategies selected by The Council.

XI. REPORTING AND MONITORING

The Council's Staff and the Consultant will monitor performance and compliance of the Private Equity asset class on a quarterly basis.

Real Estate Statement of Investment Policy
Approved March 31, 2009

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Section

I. REVISION HISTORY

Action	Date
Original approved and established…………………………………………………	April 2007
Policy revised and approved……………………………………………………….	March 2009

II. SCOPE

This policy applies to the private markets and public markets Real Estate within all of the funds managed by the Nebraska Investment Council ("The Council"). This policy does not govern the public Real Estate securities exposure within the U.S. or Non-U.S. Equity Policy.

III. PURPOSE AND OBJECTIVES

The purpose of this Real Estate Statement of Investment Policy is to formalize the Nebraska Investment Council's investment objectives and policy with respect to the Real Estate asset class and to define the duties and responsibilities of the various entities involved in the Real Estate investment process. This statement is to be considered an extension of The Council's overall Statement of Investment Policy. No provision of this Real Estate Statement of Investment Policy shall be construed in contravention of the enabling legislation found in the Nebraska State Funds Investment Act and the Nebraska Capital Expansion Act.

IV. INVESTMENT PHILOSOPHY

The Council allocates a portion of its total assets to the Real Estate asset class. The Council defines its Real Estate asset class by its investment values directly relating to the ownership or operation of commercial or residential Real Estate investments. The Council also includes investments in timberland and farmland within the Real Estate asset class. The Council allocates assets to Real Estate with the following goals:

Diversification with Other Asset Classes
Real Estate returns have historically performed differently than the returns of other asset classes in which The Council invests. The Council believes that Real Estate returns will continue to behave differently from other asset class returns, allowing The Council to lower the risk of its overall portfolio through diversification by allocating to the Real Estate asset class.

Potential Inflation Hedge
Real Estate returns have historically shown the ability to provide a hedge against rising inflation. By allocating a portion of its investments to an asset class with these characteristics, the overall risk of rising inflation to the portfolio is reduced.

Current Income and Appreciation
Core and Value-Added Real Estate strategies have historically shown the ability to maintain a moderate current income component with a modest appreciation component. As such, an appropriate proportion of the Real Estate portfolio is targeted to be allocated to each of these strategies.

Return Enhancement

Value-Added and Opportunistic Real Estate strategies have historically shown the ability to deliver higher degrees of appreciation and higher total returns relative to Real Estate industry benchmarks. To help the portfolio's ability to outperform and produce excess returns, an allocation is made to the Real Estate asset class in these styles.

V. ALLOCATION

The Council controls allocation risk at the fund level as shown below in Table 1.

Table 1. Real Estate Target Allocations and Ranges

	Private Markets		Public Markets		Total	
Fund	Target	Range	Target	Range	Target	Range
Defined Benefit ("DB/CBB")	5.0%	+/- 2.0%	0.0%	+ 1.0%	5.0%	+/- 2.0%
General Endowment	5.0%	+/- 2.0%	0.0%	0.0%	5.0%	+/- 2.0%
Health Care Endowment	5.0%	+/- 2.0%	0.0%	0.0%	5.0%	+/- 2.0%
Investor Select Program	0.0%	+/- 2.0%	5.0%	+/- 2.0%	5.0%	+/- 2.0%

VI. PERFORMANCE OBJECTIVE

The private markets Real Estate performance is benchmarked against the National Council of Real Estate Investment Fiduciaries ("NCREIF") Property Index ("NPI"). The private markets Real Estate portfolio is measured net of manager fees (not including overhead expenses) and the NPI is unadjusted. The private markets Real Estate portfolio is expected to meet or exceed the NPI over rolling three-year periods.

The public markets Real Estate performance is benchmarked against the Dow Jones Wilshire Real Estate Securities Index ("DJ WRESI"). The public markets Real Estate portfolio is measured net of manager fees and the DJ WRESI is unadjusted. The public markets Real Estate portfolio is expected to meet or exceed the DJ WRESI over rolling three-year periods.

As the Defined Benefit program is allocated up to 20% in public markets Real Estate and at least 80% private markets Real Estate, the program's total Real Estate performance is benchmarked against the Custom Index of 80% NPI + 20% DJ WRESI. The total Real Estate portfolio is expected to meet or exceed the Custom Index over rolling three-year periods.

As the Investor Select Program may invest in either public markets or private markets Real Estate depending on the availability of products that meet the program's needs, the benchmark will be weighted according to the actual allocation between the two markets at each quarter end.

As The Council added non-Core Real Estate investments to the DB/CBB program in 2007, it is appropriate to begin the DB/CBB's benchmarking process in 2010 due to the three-year rolling period.

As The Council added non-Core Real Estate investments to the General Endowment and Health Care Endowment in 2009, it is appropriate to begin these programs' benchmarking processes in 2012 due to the three-year rolling period.

As The Council added REITs to the Investor Select Program at its 2005 inception, it is appropriate to begin this program's benchmarking process in 2008 due to the three-year rolling period.

VII. PERMISSIBLE INVESTMENTS

A. Private Markets

The private markets Real Estate should consist of a majority of equity ownership of privately-held institutional Real Estate investments. A portion of The Council's private markets Real Estate assets may also consist of non-equity investments (e.g., first mortgages, B-note loans, mezzanine financing, preferred equity), not to exceed 30% of the overall Real Estate portfolio. Compliance with this risk parameter shall be based on a percentage of the private markets Real Estate portfolio's Net Asset Value at Fair Value as of each quarter end. Investment vehicles whose sole investment strategy is to invest in single family residential Real Estate are precluded from investment, as these vehicles' sole investment strategy is to invest in Real Estate debt (whole loans).

This policy authorizes the use of all types of investment structures including:

- Separate Accounts
- Co-investments
- Joint ventures
- Open and closed-end funds
- Partnerships
- Private Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs)

B. Public Markets

Investments in public markets Real Estate are intended to be made directly through publicly-traded REITs. It is understood that the Council may receive distributions in kind of other types of publicly-traded securities, such as those authorized below.

This policy authorizes the holding of all forms of public markets Real Estate securities including:

- Common stock
- Exchange-traded funds
- American Depositary Receipts
- Warrants
- Initial Public Offerings
- Preferred securities
- Cash and cash equivalents as necessary

VIII. RISK MANAGEMENT

A. Private Markets

For private markets Real Estate investments, the following sections identify the most significant risks and the method of control. Compliance with the following risk parameters shall be based on % of the private markets Real Estate portfolio's Net Asset Value at Fair Value as of each quarter end.

1. *Property Type*
   The Council seeks to minimize the risk of its Real Estate portfolio by allocating its assets across the spectrum of property types, with the majority of its investments allocated to the primary sectors of the NPI as follows:

Office	10-50%
Industrial	10-40%
Retail	10-40%
Multifamily (apartment)	10-40%
Lodging (hotel)	0-20%
Other	0%-10%

2. *Geographic*
   The Council seeks to minimize the risk of its Real Estate portfolio by allocating its investments across the geographic spectrum. Within the United States, the allowable range of total Real Estate allocation is as follows:

West	NPI +/-25%
East	NPI +/-25%
Midwest	NPI +/-25%
South	NPI +/-25%

   No more than 25% of the Real Estate portfolio may be invested outside of the United States.

3. *Individual Investment*
   In order to mitigate the risk of large loss, The Council will diversify its Real Estate investments across many different individual properties. As such, and based on the aggregate size of the Real Estate asset class allocation, direct investment into properties is prohibited as are fund investments that have the sole purpose of acquiring or developing an individual property.

4. *Manager*
   Manager risk consists of two elements: the exposure to a manager and the number of managers in the private markets Real Estate portfolio. To control manager exposure, the allocation to a single private markets Real Estate manager is limited to 20% of the private markets Real Estate portfolio.

5. *Life Cycle*
   The Council will endeavor to invest the majority of its assets in fully established, income-producing Real Estate, commonly referred to as core Real Estate. As defined above, The Council will have between 50% and 70% of its Real Estate asset class in core investments.

6. *Liquidity*
   Private Real Estate is an illiquid asset class. As such, The Council understands and recognizes that the Real Estate asset class will not be structured in a way to provide liquidity for the overall portfolio. Should market values for Real Estate change such that the asset class falls out of

compliance with these guidelines, all avenues of remedying the violation will be evaluated and monitored by the consultant and The Council's Staff, but no action will be required to be taken to rebalance if it is believed that the forced sale will result in adverse economic impact to the overall Real Estate portfolio.

7. *Currency*

The Council accepts that there are currency risks consistent with investments held outside of the United States.

B. Public Markets

The expected tracking error (active risk) is expected to be no higher than 200 basis points per annum measured over rolling five-year periods. The manager guidelines may define tracking error targets for specific portfolios provided the overall public markets tracking error is expected to stay within 200 bps. The allowable allocation range for each portfolio type and the investment guidelines defined for each portfolio are designed to keep the public markets within its expected tracking error guidelines.

Risk is managed through a combination of quantitative and qualitative constraints. The primary approach to managing risk is to control the characteristics and risk factors of the aggregate portfolio within a reasonable tolerance of the benchmark to minimize biases and unintended portfolio mismatches. The following sections identify the significant elements of risk at the individual portfolio level. Managers shall establish reasonable parameters in each portfolio's investment guidelines to control such risks.

Compliance with the following risk parameters shall be based on % of the public markets Real Estate portfolio's Net Asset Value at Fair Value as of each quarter end.

1. *Liquidity*

It is the objective of the public markets Real Estate portfolio to be fully invested at all times in Real Estate equity and related securities. Allocation ranges will be maintained through disciplined rebalancing. A small allocation to cash or cash equivalents is permitted to provide operating liquidity.

2. *Portfolio Composition*

The public markets Real Estate investments will achieve diversification across all sectors of the DJ WRESI. Public markets Real Estate investments will target geographic diversification within the United States. Diversification is a primary risk control element.

IX. INVESTMENT MANAGER SELECTION

In order to implement its investment strategy, The Council will use individual investment managers. The Council has a responsibility to its members to make investments with the objective of obtaining superior total long-term rates of return, while using acceptable levels of risk and reasonable cost controls. The availability of qualified minority and women-owned business enterprises is recognized by the Council. The characteristic of being a minority or woman-owned business enterprise is not a barrier to employment by the Council.

It is the policy of the Council to include qualified minority and women-owned business enterprises in the investment manager selection process, and to objectively evaluate all qualified investment manager candidates regardless of race, gender, or handicap.

The Council will evaluate all qualified investment manager candidates with emphasis on demonstrated track record performance, organizational depth, fit within The Council's Real Estate portfolio, institutional investment management capability and experience, investment process, and reasonableness of fee structure and terms, regardless of the amount of investment assets under management or the age of the investment management firm.

The Council will use professional consultants that do not use discriminatory practices in the creation and maintenance of their investment manager databases, and will require the consultants to affirm their use of non-discriminatory practices when recommending investment manager candidates to the Council.

X. DISTINCTION OF RESPONSIBILITIES

The Council is responsible for approving the Real Estate Statement of Investment Policy.

The Council is responsible for selecting the investment managers used to implement the Real Estate Statement of Investment Policy.

The Council's Staff is responsible for recommending investment managers to the Council, as well as for managing the Real Estate asset class and monitoring the investment managers, as described by the Real Estate Statement of Investment Policy on an ongoing basis.

The Council's Staff may retain the Consultant to assist in selecting and monitoring investment managers, as well as to present the performance of the Real Estate asset class to The Council's Staff and Council Members. The Consultant may also assist the Staff in developing and recommending the Real Estate Statement of Investment Policy and any changes to this document.

Investment managers are used by The Council to implement the specific investment strategies selected by The Council.

XI. REPORTING AND MONITORING

The Council's Staff and the Consultant will monitor performance and compliance of the Real Estate asset class on a quarterly basis.

Derivatives Policy
Amended February 6, 2006

Derivatives are securities whose value is determined by the value of some other security. Common types of derivatives include futures, options, swaps and forward contracts. If used appropriately, derivative contracts can be an important component of an investor's portfolio by reducing risk, providing a cheaper, more efficient manner in which to obtain market exposure or to expand the opportunity set in which qualified managers seek to add value.

MANAGER RESPONSIBILITIES (SEPARATE ACCOUNT MANAGERS)

It is the Council's intention to allow qualified managers the discretion, within guideline limits as set forth in the Council-approved Appendix B of their Investment Management Agreement, to utilize derivatives for various purposes. Examples of instances where derivatives could be utilized by the Council's managers include, but are not limited to:

- Facilitating total fund rebalancings
- Allowing qualified managers discretion to utilize derivatives to implement their investment process provided they have the necessary systems to monitor such exposures
- Aiding in portfolio transitions by maintaining constant market exposures
- Equitizing investment manager cash holdings

Derivative contracts are typically bought on margin, meaning that only a small portion of the purchase price (maybe 5%-10%) is required to be initially invested. In instances where managers utilize derivatives, the Council expects the manager to fully collateralize its exposure so as to not introduce leverage into the portfolio. In collateralizing the derivatives exposure, the manager is required to set aside the remainder of the purchase price and invest these assets in Treasury Bills or other cash equivalent securities. Under no circumstances is financial leverage permitted in any derivatives strategy.

Within 15 business days after each quarter end, all managers who had derivative positions in the preceding quarter must send a written report to the State Investment Officer. This report shall include the following information:

- The types of derivatives used (specify whether exchange-traded or over-the-counter)
- The purpose of the derivatives being used
- The percent of the portfolio's value being invested in derivatives
- The manager's assessment of the overall risk
- The manager's assessment of the maximum risk from any one position

This report shall be signed by the portfolio manager and the risk officer. Unless expressly approved in writing by the State Investment Officer within 30 days following the date that the quarterly report is received, the portfolio manager shall cease using derivatives by the end of the quarter in which no approval is received.

Managers are expected to comply with the above Policy in addition to further restrictions as detailed in their Investment Management Agreement.

MANAGER RESPONSIBILITIES (COMMINGLE FUNDS AND MUTUAL FUNDS)

For commingled funds and mutual funds, derivative usage is delineated in each fund's offering memorandum, prospectus or other governing document. The Council charges the State Investment Officer and the investment consultant to obtain, annually within 60 days after each fund's year-end, a confirmation that each fund's use of derivatives is in compliance with their stated policy on derivatives usage.

STATE INVESTMENT OFFICER AUTHORIZATION

The State Investment Officer is authorized to instruct an investment manager to equitize cash or rebalance the portfolio using derivatives, as appropriate. Whenever this is done, the State Investment Officer will report such usage to the Council at its next meeting.

Risk Budgeting Policy
Amended April 20, 2006

The Nebraska Investment Council recognizes that by utilizing active investment managers, additional levels of risk are incurred in the attempt to achieve greater than market returns. This risk is commonly referred to as "active risk" or "benchmark risk," and represents the probability and magnitude that the investment returns earned will differ from those of the corresponding market indices. Recognizing that active risk is necessary to earn above market returns, but also may result in below benchmark returns, the Council has established active risk ranges for the major asset classes and the total fund. Thus, while above market returns are sought, the level of risk being taken, relative to the benchmarks, is managed. Specifically, the approved active risk ranges, which represent the standard deviation of the asset class/total fund's return relative to the return of its benchmark, are as follows:

Domestic Equity:	1.00% -- 2.00%
International Equity:	2.00% -- 3.00%
Global Equity:	3.00% -- 4.00%
Fixed Income:	0.50% -- 1.00%
Total Fund:	0.75% -- 1.50%

Active risk can stem from two sources: manager-specific risk and "misfit" risk. Misfit risk represents the inherent mismatch between an asset class benchmark and the composite of individual portfolio benchmarks. For example, if the domestic equity asset class benchmark is the DJ Wilshire 5000 Index, the weighted average of the benchmarks for all managers within the domestic equity asset class should have the same investment exposures (large-cap/small-cap and growth/value) as the Wilshire 5000. Otherwise, misfit risk occurs, and this risk is uncompensated risk over long periods of time. Accordingly, the allocations within the major asset classes will be determined to minimize misfit risk and optimally result in substantially all of the fund's active risk being derived from manager-specific risk.

The above active risk ranges must be accommodated when replacing existing managers or pursuing new active investment strategies. As the Council reviews new investment managers or strategies for consideration, a detailed analysis of prospective active risk will be provided by the Council's investment consultant to ensure the Council's selections will be consistent with this Policy.

By the end of each first calendar quarter, the State Investment Officer will review the actual active risk incurred within the portfolios of all active managers, of the major asset classes, and of the fund in total during the preceding three-year period. Active risk outside of the above ranges will be reported to the Council at their next meeting. In consultation with the Council's investment consultant, a recommendation regarding any deviation will also be made to the Council at this time.

This policy will be reviewed by the Council at least every three years to ensure relevance and levels of risk-taking are currently appropriate.

Proxy Voting Policy
Adopted January 28, 2003

The Nebraska Investment Council (the Council) recognizes proxy votes as assets of the plans entrusted to it and commits to managing its proxy voting rights with the same care, skill, diligence, and prudence as is exercised in the management of its other plan assets. The Council acknowledges that proxies are a significant and valuable tool in corporate governance and have economic value. In accordance with legal authority and industry norm, the Council charges its external managers with the responsibility of voting proxies on behalf of the plans overseen by the Council. The Council believes its managers are responsible fiduciaries and will exercise their proxy voting rights in the sole economic interest of the beneficiaries to the various pools of assets under the Council's oversight.

In the case of separate account managers, each manager must record any and all proxy votes made on behalf of the plans overseen by the Council. Each manager will report such proxy votes to the Nebraska State Investment Officer (SIO) on behalf of the Council within 60 days after quarter end, for all votes cast during the preceding quarter. Each manager will send its proxy voting policies to the SIO on behalf of the Council and subsequently send any updates of its policy to the SIO. The SIO will provide these documents to the Council for periodic review. Annually, the SIO will provide a summary of the major proxy issues and the votes cast by the respective investment managers on those issues. Major issues are defined as one of the three following categories: corporate governance, takeover defense, and executive compensation.

Investments in commingled funds are handled similarly. Each commingled fund manager will maintain a record of all proxy votes made in funds that the Council has invested into on behalf of the plans. Each manager will report such proxy votes to the SIO on behalf of the Council within 60 days after quarter end, for all votes cast during the preceding quarter. Each commingled fund manager will send its proxy voting policies to the SIO on behalf of the Council and subsequently send any updates of its policies to the SIO. The SIO will provide these documents to the Council for periodic review. Annually, the SIO will provide a summary of the major proxy issues and the votes cast by the respective commingled fund managers on those issues. Major issues are defined as one of the three following categories: corporate governance, takeover defense, and executive compensation.

In summary, the SIO on behalf of the Council will retain each manager's current proxy voting policy and record of proxy votes, and periodically review them with the Council; thus effectively managing the proxy votes of the assets of the plans entrusted to the Council.

Furthermore, the Council retains the right to vote proxies if any manager declines to vote proxies. It will be the Council's policy to evaluate each proxy proposal and to vote in the manner most beneficial to the long-term earnings of the plans.

Class Action Policy
Adopted May 26, 2004

The Nebraska Investment Council ("Council") has adopted this policy with respect to procedures for handling class action litigation pertaining to the investments managed by the Council effective May 26, 2004. The Policy shall remain in effect until amended or terminated by the Council.

GENERAL PROVISIONS

A. The Council will not be lead plaintiff in any class action litigation.

B. Any proceeds realized from a class action will be applied to the affected fund. If the affected fund is no longer utilized, the proceeds will be applied to the affected plan as the State Investment Officer reasonably believes appropriate.

C. The State Investment Officer shall enter into agreements to implement this policy as the State Investment Officer reasonably deems appropriate.

D. The State Investment Officer may bring any class action to the Council that the State Investment Officer believes (1) action different from the provisions of this Policy is appropriate, or (2) the provisions of this policy do not apply.

SEPARATE ACCOUNT MANAGERS

With respect to securities managed by, or formerly managed by, separate account managers, the following shall apply:

A. The State Investment Officer will request and require that the custodian forward all class action notices to the State Investment Officer.

B. The State Investment Officer will direct the custodian to file on the Council's behalf to participate in all U.S. class actions for which the custodian reasonably believes the Council may be eligible.

MANAGERS OF COMMINGLED FUNDS

Managers of commingled funds shall be responsible for managing class actions involving securities held by, or formerly held by, the fund.

AIM AND HARTFORD

AIM Capital Management, Inc ("AIM") and Hartford Life Insurance Company ("Hartford") shall be responsible for class actions involving securities and mutual funds held, or formerly held, by them, or held, or formerly held, by mutual funds utilized by them. Class actions against AIM or Hartford shall be referred to the Council by the State Investment Officer to determine appropriate action.

Commission Recapture Policy
Adopted April 14, 2003

Pursuant to 26 U.S.C. § 401, Neb. Rev. Stat. §23-2330.02, §24-713.02, §79-977.02, §81-2039, §84-1329.04, as recaptured commissions are generated by assets in the defined benefit plans, the cash balance benefit, and the endowments (collectively, the "Plans"), the Nebraska Investment Council (the Council) recognizes them to be assets of the Plans in which the commissions were generated. Accordingly, the rebates earned from the recaptured commissions are to be used solely for the benefit of that Plan's participants.

The amount of recaptured commissions is variable each year, depending on the investment managers' strategy and market conditions. As earned, the State Investment Officer will maintain the rebated commissions in an account at the Plans' custodian bank created exclusively for this purpose. The State Investment Officer will perform a sub-accounting process that identifies the balance for each of the three entities generating recaptured commissions. On a best efforts basis, charges to the accounts will be to pay for services that directly or indirectly benefit the participants in each of the Plans that generate the recaptured commissions. Some allowable expenses are specifically related to one of the Plans, and in these cases, the charges will be fully allocated to the commission recapture balance for that Plan. Other allowable expenses are for services that benefit all three of the entities, and these will be charged to the commission recapture balances on a pro-rata basis.

Within 60 days after the end of each fiscal year, the balance in the recaptured commissions fund will be valued relative to projected expenses. If the balance is greater than one-half of the appropriated budget for the Council for the current year, the State Investment Officer will return the excess (the amount greater than one-half) to the Plan participants by transferring the excess to each of the three entities in the Plans on a pro-rata basis.

The Council takes very seriously its responsibility to the participants of the Plans entrusted to it. Federal regulations and Nebraska statutes state clearly that directed brokerage and recaptured commissions are only to be used to pay for services, or offset expenses, that directly relate to the investment management and oversight of plan assets, or for plan benefits. The Council believes that using these recaptured commissions for the benefit of Plan participants by paying for related expenses or returning the money back to the Plan participants is the ethical and proper legal action.

Soft Dollar/Brokerage Policy
Adopted May 24, 2005

The Council recognizes that commissions are costs that reduce the assets of the various investment programs. As such, commissions paid to brokerage firms need to be managed and monitored so that excessive rates are not paid for execution and/or other services. Since most of the assets are managed by external investment managers, the Council must exercise its fiduciary responsibilities along with incorporating the trading practices of its investment managers.

Commissions paid for transacting in equity securities may bundle the costs of executing the trade, typically small, along with investment and market research and other services a brokerage firm may provide to an investment manager. These are known as "soft dollar" arrangements. This bundling of the cost of providing research and other services along with trading costs has developed into an industry-wide practice.

The Council requires all investment managers to seek best execution on all trades in the various portfolios. However, the Council acknowledges that certain investment managers may trade for soft dollars in managing the Nebraska portfolios. In those transactions that are soft dollar trades, the Council requires that those commission rates be reasonable and appropriate and be in accordance with Section 28(e) of the Securities Exchange Act of 1934.

In order to monitor the commission paid by its investment managers, the State Investment Officer will be provided a schedule of all commissions paid by each separate account equity manager on a quarterly basis. This schedule will identify all brokerage firms with whom the manager traded, the average cents per share paid to each broker, and the total commissions paid to each firm.

Cash Management Policy
Adopted January 25, 2005

Cash investments provide the lowest level of investment risk of any asset class and provide a commensurately low level of expected investment return. As such, allocations to cash investments are to be minimized so that investment returns are not sacrificed. Allocations to cash should be only those amounts necessary to meet the various plans' current benefit payments, operating expenses and other appropriate expenses incurred.

Unless specifically approved otherwise by the Nebraska Investment Council, investment of cash equivalents must be made either through the custodian's short term investment fund products and/or cash sweep vehicles. These products must provide the prudent levels of liquidity and investment quality consistent with the preservation of principal.

The State Investment Officer is responsible for monitoring the plans' cash allocations and the products in which assets are held to ensure compliance with this Policy.

Policy for Political Subdivisions
Amended September 27, 2004

Statute 72-1259 states: "The state investment officer may provide assistance and furnish advice regarding the investment of money to any political subdivision of the State of Nebraska whenever such advice is requested by a political subdivision. In connection with rendering such service, the state investment officer may charge and collect any fee he determines to be reasonable."

This document sets forth the policy established by the Nebraska Investment Council (the Council) in response and strict adherence to this statute.

The State of Nebraska Constitution explicitly prohibits subscription to stock by political subdivisions in Article XI. The statutes of the Legislature and significant precedent from State court decisions provide a distinction between the retirement funds of a political subdivision and the non-retirement funds of a political subdivision. The activity of the Legislature and the court system leads to the situation that the retirement funds of political subdivisions can own stock and the non-retirement funds of political subdivisions cannot. Thus, this policy distinguishes between retirement funds and non-retirement funds. Section I – Retirement Funds of this document is intended to provide guidance for the investment of retirement funds of political subdivisions. The non-retirement funds of political subdivisions which cannot own stock are discussed in Section II – Non-Retirement Funds. The Prudent Expert Rule is applicable to all funds.

PRUDENT EXPERT RULE

Statute 72-1246 states: "The state investment officer shall invest in investments of the nature which individuals of prudence, discretion, and intelligence acquire or retain in dealing with the property of another, and if the state investment officer has special skills or is named on the basis of representations of special skills or expertise, he or she is under a duty to use such skills, subject to the direction of the Nebraska Investment Council."

Political subdivisions should use the same prudent expert standard in dealing with their own investments. They should establish policies and oversight processes to ensure that their assets are prudently invested by competent people.

In managing the portfolios entrusted to it, the Council establishes a hierarchy of investment objectives, strategies, and guidelines. The Council uses a formal process for selecting individuals or firms to manage the investments. The Council monitors the performance of all portfolios. Taken as a whole, this constitutes an investment management process intended to ensure the assets are prudently invested. The specific strategies, guidelines, etc. used by the Council are specific to the portfolios the Council manages. Even the Council's investment process taken as a whole may or may not be appropriate for a political subdivision, since the nature of the Council's portfolios is likely to be significantly different. The descriptions included in this policy are only to be used as an example.

SECTION I - RETIREMENT FUNDS

INVESTMENT OBJECTIVES

The Council establishes investment objectives for the assets of each fund it manages. These objectives reflect the purposes for which each fund was established. Each set of objectives usually contains a tradeoff between risk and return in the investment portfolio. This tradeoff is based on the Council's judgment of the ability of each fund to absorb potential losses and of the benefit each fund may receive from a more aggressive investment strategy.

For example, the Council manages the retirement funds for the School Retirement System of the State of Nebraska, Nebraska State Patrol Retirement System and the Nebraska Judges' Retirement System (the Defined Benefit Plans). The primary investment objectives for the Defined Benefit Plans are to maximize return on assets, minimize asset risk, maximize funding ratio return and minimize funding ratio risk. These objectives reflect the necessity of covering the liabilities of the Plans while minimizing volatility.

INVESTMENT STRATEGIES AND POLICIES

For each set of investment objectives, the Council chooses an investment strategy that is designed to best meet the objectives. Typically there will be a number of strategies that do a good job satisfying the objectives. Therefore when choosing among strategies, the Council must consider all the implications of the strategy, not just the investment objectives.

For example, the overall investment strategy for the Defined Benefit Plans is 30% of the assets invested in fixed income, 50% in domestic equities, 15% in international equities and 5% in real estate. The funds are further diversified within these major asset classes by growth and value, large cap and small cap, etc.

INVESTMENT GUIDELINES

Typically the assets of each fund are divided into several portfolios. The portfolios are designed so that, in aggregate, they implement the strategy for the fund. The investment manager for each portfolio is given a set of investment guidelines that must be followed. The guidelines constrain the portfolio sufficiently to ensure that the aggregate portfolio reflects the overall strategy.

For example, the fixed income portfolios used in the Defined Benefit Plans consist of four portfolios placed with different external portfolio managers. Each portfolio operates under specific guidelines that specify the credit quality of individual investments, sector limits, and duration restrictions.

MANAGER SELECTION

The Council selects investment managers whom the Council believes will provide superior investment results consistent with portfolio guidelines. Typically the Council selects managers through a process which begins by issuing a Request For Proposal and ends with presentations by a short list of managers to the Council. The Council uses five primary criteria in evaluating managers:

1. Investment process
2. Organizational structure and stability / Quality of personnel
3. Resources available
4. Fees
5. Historical performance

PERFORMANCE MONITORING

Performance benchmarks are established for each portfolio. Each portfolio and investment manager is monitored for changes in any of the five selection criteria. Changes that the Council believes may lead to future underperformance result in the manager's being placed on its watch list or terminated.

SECTION II - NON-RETIREMENT FUNDS

INVESTMENT OBJECTIVES

The Council establishes investment objectives for the assets of each fund it manages. These objectives reflect the purposes for which each fund was established. Each set of objectives usually contains a tradeoff between risk and return in the investment portfolio. This tradeoff is based on the Council's judgment of the ability of each fund to absorb potential losses and of the benefit each fund may receive from a more aggressive investment strategy.

For example, the Council manages a portfolio that contains the State's General Fund and the operating cash of most State agencies. The primary investment objectives for this Operating Investment Pool are safety of principal and liquidity, while return on investment is a secondary objective. These objectives reflect the purpose of these funds.

INVESTMENT STRATEGIES AND POLICIES

For each set of investment objectives, the Council chooses an investment strategy that is designed to best meet the objectives. Typically there will be a number of strategies that do a good job satisfying the objectives. Therefore when choosing among strategies, the Council must consider all the implications of the strategy, not just the investment objectives.

For example, the Operating Investment Pool is to be managed primarily as a buy and hold laddered portfolio of high quality investment grade fixed income securities that also provide the necessary liquidity.

INVESTMENT GUIDELINES

Typically the assets of each fund are divided into several portfolios. The portfolios are designed so, in aggregate, they implement the strategy for the fund. The investment manager for each portfolio is given a set of investment guidelines that must be followed. The guidelines constrain the portfolio sufficiently to ensure that the aggregate portfolio reflects the overall strategy.

For example, the Investment Policy Statement for the Operating Investment Pool defines the investment constraints by listing allowable investments and by setting allowable credit quality. It also places limits on the maturity of individual securities and shows sector diversification maximums and minimums.

MANAGER SELECTION

The Council currently utilizes internal management to manage the Operating Investment Pool. Should that change, the Council would select an investment manager(s) through a quantitative and qualitative process that ends with presentations by potential managers to the Council. The Council uses five criteria in evaluating managers:

1. Investment process
2. Organizational structure and stability / Quality of personnel
3. Resources available
4. Fees
5. Historical performance

PERFORMANCE MONITORING

Performance benchmarks are established for each portfolio. Each portfolio and investment manager is monitored for changes in any of the five selection criteria. Changes that the Council believes may lead to future underperformance result in the manager's being placed on its watch list or terminated.

Securities Lending Policy
Adopted November 16, 2009

OBJECTIVE

The Nebraska Investment Council (the "Council) may, at its discretion, retain one or more lending agents to lend securities held in its separately managed, publicly traded investment portfolios. Pooled investment vehicles remain outside the purview of these guidelines. Borrowers to whom securities are lent must provide collateral in exchange for the right to borrow securities. The securities lending program should generate income from fees on loans and from a limited amount of risk from the cash collateral investment portfolio consistent with the portfolio guidelines.

LENDING

The lending agent will evaluate the credit-worthiness of potential borrowers of securities, and will loan securities only to financially sound borrowers. The lending agent will maintain a diversified list of such borrowers in order to mitigate the counterparty risk that is inherent in securities lending.

Collateral levels will not be less than 102% of the market value of borrowed securities for domestic securities, or not less than 105% for international borrowed securities. Marking to market will be performed every business day subject to de minimis rules of change in value, and borrowers will be required to deliver additional assets as necessary to maintain over collateralization of securities loans.

REINVESTMENT PORTFOLIO

The cash collateral portfolio will be managed on an amortized cost basis (maintain a $1 NAV) and have investment guidelines to ensure that only a limited amount of risk is taken on the reinvestment of the cash collateral consistent with the portfolio guidelines. This will control the amount of credit and duration risk that can be taken by the short duration fixed income manager, which will help to mitigate losses due to insufficient collateral relative to the amount on loan. In addition, guidelines for the cash collateral portfolio will be created in conjunction with the lending strategy and with input from the securities lending agent.

The collateral pool should also maintain a reasonable level of overnight liquidity in order to allow for the smooth recall of securities over time.

MONITORING

The State Investment Officer (the "SIO") will be responsible for monitoring the securities lending program on an ongoing basis. Each quarter, the SIO will provide a summary of the securities lending program, which should include revenue earned during the quarter and other relevant information related to counterparties and the cash reinvestment portfolio. On an annual basis, the SIO will provide a detailed report to the Council on all aspects of the securities lending program.

Disclosure of Third Party Representation
Adopted March 17, 2010

The Nebraska Investment Council (NIC) members, employees and consultants are subject to numerous legal requirements intended to ensure their ethical conduct, their compliance with their fiduciary responsibilities, and to prevent conflicts of interest. To ensure the strict compliance with these legal requirements the NIC has adopted a "Code of Ethics, Policy on Conflicts of Interest and Council Procedures". The purpose of this Policy Regarding Third Party Representation of NIC's Investment Managers ('Third Party Representation Disclosure Policy') is to make certain that consultants and managers doing business with NIC adhere to a similar standard and to enhance the transparency of the investment decision-making process by requiring broad, timely and updated disclosure of the existence of any relationships between NIC's investment managers and individuals or entities serving as a compensated representative of the investment manager for the purpose of securing an investment by NIC ('Third Party Representatives'). The goal of the Third Party Representation Disclosure Policy is to help ensure that investment decisions are made solely on the merits of the investment opportunity, are reasonable and prudent from a fiduciary perspective, and are consistent with NIC's investment policies and objectives.

DEFINITION OF THIRD PARTY REPRESENTATIVE

For purposes of the Third Party Representation Disclosure Policy, a Third Party Representative is defined as follows: Any person or entity hired, engaged by, or acting on behalf of an investment manager as a finder, solicitor, placement agent, marketer, consultant, broker or other intermediary to raise money or solicit investment funding from or to obtain access to NIC, either directly or indirectly.

APPLICATION OF THE THIRD PARTY REPRESENTATION POLICY

The Third Party Representation Disclosure Policy shall apply to all current and prospective external NIC investment managers and investment partners engaged or being considered by NIC for investment management services ('Investment Managers' and 'Manager Candidates', respectively).

RESPONSIBILITIES

A. Investment Managers and Manager Candidates shall:

1. Provide the following information (collectively, the 'Third Party Representation Disclosure Information') to NIC (i) at the time investment discussions are initiated, and (ii) promptly upon request of the NIC:
    a. Whether the Investment Manager or Manager Candidate, or any of their principals, agents or affiliates, has compensated or agreed to compensate, directly or indirectly, any Third Party Representative in connection with any investment or proposed investment by NIC.
    b. A resume for each officer, partner, or principal of the Third Party Representative detailing the education, professional designations, regulatory licenses and investment and work experience. It should be specifically noted if any such individual is a current or former NIC member, employee or consultant, or a member of the immediate family of any such person.
    c. A description of any and all compensation of any kind provided or agreed to be provided to the Third party Representative, including the nature, timing, and value thereof.
    d. A description of the services to be performed by the Third Party Representative.
    e. A statement as to whether the Third Party Representative is utilized by the Investment Manager or Manager Candidate with all clients or prospective clients or with only a subset of clients or prospective clients.

f. Whether any current or former NIC member, employee or consultant suggested the retention of the Third Party Representative, and, if so, the identity of such person.
g. Whether the Third Party Representative or any of its affiliates are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association, or any similar regulatory agency in a country other than the United States, the details of such registration, or an explanation of why no registration is required.
h. Whether the Third Party Representative or any of its affiliates is registered as a lobbyist with any state or national government.

2. Provide an update of any changes to the Third Party Representation Disclosure Information within thirty (30) days of the occurrence of the change in such information.

3. Agree to incorporate compliance with the Third Party Representation Disclosure Policy in the investment management engagement with NIC.

4. Fully cooperate with NIC staff in monitoring and assuring compliance with the Third Party Representation Disclosure Policy.

B. NIC staff shall:

1. Assure that an agreement to comply with the Third Party Representation Disclosure Policy is incorporated in all current and future investment management engagements.

2. Assure that all existing Investment Managers complete and submit the Third Party Representation Disclosure Information to NIC in a timely manner.

3. Assure that a Manager Candidate completes and submits the Third Party Representation Disclosure Information to NIC prior to the presentation of the Manager Candidate to the NIC for consideration for an investment management engagement.

4. Confirm that the Investment Manager or Manager Candidate is solely responsible for any fees, compensation or expenses for any Third Party Representative and that NIC will not pay any such items either directly or indirectly.

5. Provide the NIC with the Third Party Representation Disclosure Information prior to any investment decision by the NIC with respect to the Investment Manager or Manager Candidate.

6. Promptly advise the NIC of any material violation of the Third Party Representation Disclosure Policy.

7. Compile a quarterly report regarding the names and amount of compensation paid to Third Party Representatives by each Investment Manager.

C. In the event of a material omission or inaccuracy in the Third Party Representation Disclosure Information, or any other material violation of the Third Party Representation Disclosure Policy the Investment Manager will be subject to:

1. Termination of the investment management engagement without penalty, or withdrawal without penalty from the limited partnership, limited liability company, or other investment vehicle, or suspension of any further capital contributions (and any fees on such re-called commitments) to limited partnership, limited liability company, or other investment vehicle.

2. A prohibition on the Investment Manager, Manager Candidate or Third Party Representative from soliciting new investments from NIC for twenty-four (24) months.

The NIC may, in its sole discretion, apply either or both provisions above in any given case based on the nature of the violation of the Third Party Representation Disclosure Policy and any other considerations.

D. All parties responsible for implementing, monitoring and complying with the Third Party Representation Disclosure Policy should consider the spirit as well as the literal expression of the Policy. In cases where there is uncertainty whether a disclosure should be made pursuant to the Third Party Representation Disclosure Policy, such cases should be interpreted to require disclosure.

Staff, Consultant, and Custodians

Jeffrey W. States
State Investment Officer

INVESTMENT STAFF

Joseph P. Jurich
Deputy State Investment Officer

JoLynn Winkler , CFA
Portfolio Manager

Joe Spitznagel
Portfolio Manager

Chris Sanders
Back Officer Manager

ADMINISTRATIVE STAFF

Kathy Dawes
Business Manager

Brandee Freauf
Secretary

Jan Westerman
Internal Auditor

INVESTMENT CONSULTANT

Hewitt Ennis Knupp
Chicago, Illinois

CUSTODIANS

State Street Bank & Trust
Boston, Massachusetts

Bank of New York Mellon
New York, New York

Oppenheimer Funds Distributor, Inc.
New York, New York

Hartford Life Insurance Company
Hartford, Connecticut

Statutory Authorities

DB PLANS –SCHOOL, STATE PATROL, AND JUDGES	
a. State Funds Investment Act, Nebraska	72-1237 through 72-1260
b. School Employees Retirement Act	79-901 through 79-977.03
c. Class V School Employees Retirement Act	79-978 through 79-9,116
d. State Patrol Retirement Act, Nebraska	81-2014 through 81-2041
e. Judges Retirement Act	24-701 through 24-714
STATE AND COUNTY RETIREMENT SYSTEMS/DEFERRED COMPENSATION PLAN	
a. State Funds Investment Act, Nebraska	72-1237 through 72-1260
b. State Employees Retirement Act	84-1301 through 84-1333
c. County Employees Retirement Act	23-2301 through 23-2334
d. Deferred Compensation Plan	84-1504 through 84-1510
OPERATING INVESTMENT POOL	
a. Capital Expansion Act, Nebraska	72-1261 through 72-1278
b. State Funds Investment Act, Nebraska	72-1237 through 72-1260
NEBRASKA EDUCATIONAL SAVINGS PLAN TRUST	
a. Nebraska Educational Savings Plan Trust	85-1801 through 85-1814
b. State Funds Investment Act, Nebraska	72-1239.01
GENERAL ENDOWMENT FUNDS	
a. Agricultural Endowment Fund	85-122 through 85-132
b. Bessey Memorial Fund	85-167 through 85-171
c. Cultural Preservation Endowment Fund	82-331 through 82-333
d. Permanent University Endowment Fund	85-122 through 85-132
e. Permanent School Fund	72-201 through 72-269 CVII-6 through CVII-9
f. State College Endowment Fund	85-317
g. Nebraska Veterans' Aid Fund	80-401
HEALTH CARE ENDOWMENT FUND	
a. Health Care Funding Act, Nebraska	71-7605 through 71-7611
UNIVERSITY FUNDS	
a. University Funds	85-122, 85-123.01, 85-192, 85-1,128,

MISCELLANEOUS TRUSTS

a. Aeronautics Trust Fund	3-155 through 3-156
b. Agricultural Development Fund	2-2101 through 2-2107
c. Drinking Water State Revolving Fund Act	71-5314 through 71-5327
d. Excess Liability Fund	
Hospital-Medical Liability Act, Nebraska	44-2801 through 44-2855
e. Joseph J. Soukup Trust Fund	LB 548, LB 1235, LB 890, LB 316

MISCELLANEOUS

a. Citizen/Alien Verification	LB 403
b. Long-Term Care Savings Plan Act	77-6101 through 77-6105
c. Open Meetings Act	84-1407 through 84-1414
d. Political Subdivisions	8-712 through 85-106
e. Public Employees Retirement Board	84-1501 through 84-1514
f. Public Funds Deposit Security Act	77-2386 through 77-23,106
g. Public Records	84-712 through 84-712.09
h. Reporting Requirements	72-1243
	72-1246.06
	84-1503
i. State Service Contracts	81-1118, 73-501 through 73-509

Investment and Custodian
2010 Expenses[1]

	Total Costs		% of Assets[2]
	(thousands of dollars)		
Internal Costs			
Salaries and benefits	$ 765		
Operating expenses	296		
Other expenses	20		
Total Internal Costs		**$ 1,081**	
Asset Management			
Abbott Capital Management, LLC	$ 795		
Acadian Asset Management, Inc.	1,388		
Accel-KKR Capital Partners III, LP	274		
Ares Management LLC	300		
Baillie Gifford Overseas Ltd.	819		
Beacon Capital Partners	319		
BlackRock Financial Management	2,845		
Bridgepoint Europe IV L.P.	597		
CB Richard Ellis Investors	52		
Citigroup Venture Capital Int’l Investment G.P. Limited	375		
CMEA Ventures VII, L.P.	307		
Cornerstone Real Estate Advisors	121		
CVC European Partners	163		
Dimensional Fund Advisors, Inc.	1,263		
Fulcrum Growth Partners IV, L.P.	100		
Galliard Capital Management, Inc.	724		
Goldman Sachs Asset Management	153		
Grantham, Mayo, Van Otterloo & Co., LLC	1,870		
Heitman Real Estate Securities LLC	158		
Ironbridge Capital Management, L.P.	1814		
Landmark Real Estate Partners VI, L.P.	375		
Lincolnshire Equity Partners IV, L.P.	400		
Longroad Capital Partners III, L.P.	400		
Loomis Sayles & Company L.P.	614		
McKinley Capital Management, Inc.	1,125		
Merit Capital Partners	71		
Metropolitan Real Estate	270		
MFS Institutional Advisors, Inc.	1,421		
Mondrian	1,478		
New Enterprise Associates 13 L.P.	218		
New Mountain Capital, LLC	372		
Pathway Capital Management, LLC	896		
PIMCO	3,260		
Prudential Investment Management, Inc.	1,300		
Quantum Energy Partners V, L.P.	175		
Rockpoint Group, LLC	266		
Rothschild Realty Managers, LLC	184		
State Street Global Advisors	142		
Sun Capital Partners	0		

1. The above expenses exclude all Nebraska Educational Savings Plan Trust fees allocated to participants; please refer to Section VI for more detail on fee information. The above expenses also exclude all fees for the University Funds.
2. Calculation excludes the Nebraska Educational Savings Plan Trust assets and the University Funds assets.

Investment and Custodian
2010 Expenses[1]

	Total Costs		% of Assets[2]
	(thousands of dollars)		
Asset Management			
The Jordon Company	323		
T. Rowe Price Associates, Inc.	201		
Turner Investment Partners	1,334		
UBS Global Asset Management, Inc.	791		
Wayzata Investment Partners, LP	274		
Total Asset Management		**$30,327**	
Other Services			
State Street Bank - custodian	$ 307		
State Street Bank – cash management	112		
State Street Bank – securities lending	926		
Hewitt Ennis Knupp - consulting	992		
Total Other Services		**$ 2,337**	
CY 2010Total Expenses		**$33,745**	**0.26%**
CY 2009Total Expenses		$28,940	0.25%
CY 2008 Total Expenses		29,759	0.29%
CY 2007 Total Expenses		24,926	0.19%
CY 2006 Total Expenses		19,944	0.17%
CY 2005 Total Expenses		14,797	0.13%
CY 2004 Total Expenses		15,137	0.16%
CY 2003 Total Expenses		12,632	0.15%
CY 2002 Total Expenses		11,033	0.15%
CY 2001 Total Expenses		12,587	0.16%
CY 2000 Total Expenses		11,963	0.16%

1. The above expenses exclude all Nebraska Educational Savings Plan Trust fees allocated to participants; please refer to Section VI for more detail on fee information. The above expenses also exclude all fees for the University Funds.
2. Calculation excludes the Nebraska Educational Savings Plan Trust assets and the University Funds assets.

Securities Lending

SUMMARY OF PROGRAM

In 2010, the securities lending program provided the investment portfolios approximately $4.2 million in net income. Although this level of income was lower than both 2009 and 2008, income was higher than the program's historical income level. The Council lends securities through an agency lending program offered by the Council's custodian bank, State Street Bank and Trust Company in Boston, Massachusetts.

AGENT LENDING PROGRAM

In this type of program, a large custodial bank or investment banking institution acts on behalf of the beneficial owner to lend its securities. All operational aspects of the program are centered exclusively with the lending agent. The agent lender is responsible for making the loans to various broker-dealers, investing the requisite cash collateral the borrower posts in exchange for any loaned securities, the daily process of marking this collateral to the loans, and in most cases, indemnifying the lender against the default of a broker-dealer to whom they have loaned securities on behalf of the beneficial owner.

DOMESTIC EQUITY

The domestic equity portfolios produced $642,602.20 of income versus $1,231,721.15 and $2,382,314.43 in 2009 and 2008, respectively. This level of lending income is on a par with the 2007 income level of $630,886.11.

INTERNATIONAL EQUITY

The international equity portfolios earned $567,676.50 in 2010. This area of the Council's lending program has been steadily growing in the past few years. 2010 experienced the second highest annual net income for the international equity program.

FIXED INCOME

The fixed income portfolios produced $3,007,649.41 in lending income for 2010. This level is down from the banner years of 2009 and 2008 but stands higher than the pre-2008 years.

The table on the following page presents the statistics for the securities lending program for calendar year 2007 through calendar year 2010.

Securities Lending

	Average Lendable Assets (in millions)	Average on Loan (in millions)	Average Utilization	Return on Average Lendable Assets (basis points)	Net Income (in millions)
Domestic Equities					
CY 2010	$ 803.5	$ 206.9	25.8%	8.0	$ 0.6
CY 2009	531.1	196.9	37.1	23.2	1.2
CY 2008	762.1	235.2	30.9	31.3	2.4
CY 2007	1,078.3	250.6	23.2	5.9	0.6
International Equities					
CY 2010	$ 680.1	$ 89.0	13.1%	8.3	$ 0.6
CY 2009	502.6	114.8	22.8	16.6	0.8
CY 2008	372.4	63.3	17.0	14.0	0.5
CY 2007	227.5	49.0	21.5	10.4	0.2
Fixed Income					
CY 2010	$3,676.4	$1,628.0	44.3%	8.2	$ 3.0
CY 2009	3,712.5	1,495.8	40.3	17.7	6.6
CY 2008	3,568.8	1,348.4	37.8	25.7	9.2
CY 2007	3,264.0	754.1	23.1	5.9	1.9
Total Program					
CY 2010	**$5,160.1**	**$1,924.0**	**37.3%**	**8.2**	**$ 4.2**
CY 2009	**4,746.3**	**1,807.5**	**38.1**	**18.2**	**8.7**
CY 2008	**4,703.3**	**1,646.9**	**35.0**	**25.7**	**12.1**
CY 2007	**4,569.7**	**1,053.7**	**23.1**	**6.1**	**2.8**

Investment Council History

The Nebraska Investment Council was established by the 1967 Legislature pursuant to LB 355. Problems with the original legislation limited initial operations and delayed the hiring of a State Investment Officer. In 1969, new legislation passed under LB 1345 which provided for the centralization of the investment of State funds and addressed the types of investments authorized. Provisions in the law called for the appointment of five Council members by the Governor to staggering five-year terms with legislative approval. The Council appoints a full-time State Investment Officer, subject to the approval of the Governor and the Legislature, and fixes his/her salary. Prior to this creation of a central State investing agency, State operating funds were invested by the State Treasurer and the trust funds were invested by the Board of Educational Lands and Funds.

Fred S. Kuethe was hired by the Council in 1969 as State Investment Officer. During its first full calendar year of operation in 1970, the Council generated $10 million in income from investment of State operating funds. The Agency was also responsible for the investment of three long-term funds: the Veterans' Aid Fund, State Patrol Retirement Fund and the Judges' Retirement Fund, with assets totaling $10 million.

In 1971, LB 52 and LB 154 transferred investment authority to the Council for the School Retirement Fund with assets of $47 million and the Permanent School Fund with assets of $42 million. In 1972, following the death of Fred S. Kuethe, James R. Marbach was appointed State Investment Officer. In 1975, Donald J. Mathes was hired as the State Investment Officer, following the resignation of James R. Marbach.

In 1976, the Short Term Investment Pool (STIP) was established to pool cash funds of all Agencies except the Treasurer's Cash Fund into one account for investment efficiencies. In the same year, the Time Deposit Open Account program for Nebraska banks and savings and loans was initiated. Assets grew substantially over the initial years of operation. On June 30, 1979, the STIP and the Treasurer's Cash Fund totaled $243 million, retirement funds $118 million, and trust funds $65 million. In 1981, LB 460 removed many of the specific restrictions on investments made by the Council and instituted the "Prudent Man Rule." The first outside equity manager was hired in 1983 by the Council. Common stock allocation for the retirement funds was increased to 50% of assets in 1984. In 1986, the Treasurer's Cash Fund was merged into the STIP. In 1986, Wilshire Associates, a nationally known pension consultant, was hired to provide performance analysis and assist in manager searches. International equities were included in 1991.

In 1994, Rex W. Holsapple was hired as the State Investment Officer, replacing Donald J. Mathes, who retired after 19 years of service.

Prior to 1997, the majority of the portfolios were managed internally. In 1997, the Council discontinued internal management for certain long-term fixed income portfolios and all of the equity portfolios. Also in 1997, the Council became responsible for asset management of the Defined Contribution investment options in the retirement plans for State and County employees, and the voluntary Deferred Compensation Plan for State employees.

In January 2002, Rex W. Holsapple resigned as the State Investment Officer and Gayle A. Wrasse was appointed as the Acting State Investment Officer. In August of 2002, Carol L. Kontor, CFA was appointed as the State Investment Officer. In 2004, Ennis Knupp + Associates was hired as the Council's investment consultant, replacing Wilshire Associates. In the same year, the Council voted to add real estate as an additional asset class for several of the plans.

In 2005, the Council voted to add four new assets classes to several of the plans: private real estate, private equities, global equities, and high yield bonds.

In July 2006, David L. Bomberger was hired as the State Investment Officer, following the resignation of Carol L. Kontor.

In 2007, the Council retained Ennis Knupp + Associates to advise it on private equity investment matters. In June 2008, Ennis Knupp + Associates were retained to advise the Council on real estate matters. In March 2009, Joe Jurich was appointed Acting State Investment Officer following the resignation of David L. Bomberger.

Jeffrey W. States was hired for the State Investment Officer position beginning November 2009. In 2010, Joe Jurich was promoted to Deputy State Investment Officer. The office also added two new staff positions – an additional Portfolio Manager to help with the Operating Investment Pool and a Back Office Manager.